

Energy Transfer Partners, L.P.
Form 424B3
September 12, 2013
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**Filed pursuant to Rule 424(b)(3)
Registration No. 333-171697**

The information in this preliminary prospectus supplement is not complete and may be changed. This preliminary prospectus supplement and the accompanying prospectus are not an offer to sell these securities and they are not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

Subject to Completion, Dated September 12, 2013

Preliminary Prospectus Supplement

(To Prospectus dated January 13, 2011)

\$

Energy Transfer Partners, L.P.

% Senior Notes due 20

% Senior Notes due 20

% Senior Notes due 20

We are offering \$ aggregate principal amount of our % Senior Notes due 20 , or the 20 notes, \$ aggregate principal amount of our % Senior Notes due 20 , or the 20 notes, and \$ aggregate principal amount of our % Senior Notes due 20 , or the 20 notes. We refer to the 20 notes, the 20 notes and the 20 notes, collectively, as the notes.

Interest on the notes will accrue from September , 2013 and will be payable semiannually on and of each year, beginning on , 2014. The 20 notes will mature on , 20 , the 20 notes will mature on , 20 and the 20 notes will mature on , 20 .

We may redeem some or all of the notes of each series at our option at any time and from time to time prior to their maturity at the applicable redemption prices set forth in this prospectus supplement, plus accrued and unpaid interest. Please read 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, including our existing senior notes and the existing senior notes and debentures of Sunoco, Inc., of which we are a co-obligor, and senior in right of payment to all of our current and future subordinated debt,

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including our existing junior subordinated notes. The notes will not initially be guaranteed by our subsidiaries.

The notes are new issues of securities with no established trading markets. We do not intend to apply for the listing of the notes on any securities exchange or for the quotation of the notes on any automated dealer quotation system.

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

Investing in the notes involves risks. Please read Risk Factors beginning on page S-10 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		Total		Per		Total		Per		Total	
	20	Note	20	Notes	20	Note	20	Notes	20	Note	20	Notes
Price to Public(1)		%	\$			%	\$			%	\$	
Underwriting Discount		%	\$			%	\$			%	\$	
Proceeds to Energy Transfer Partners, L.P. (Before Expenses)		%	\$			%	\$			%	\$	

(1) Plus accrued interest from September , 2013, 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 September , 2013.

Joint Book-Running Managers

Credit Suisse
Citigroup

J.P. Morgan
UBS Investment
Bank

The date of this prospectus supplement is September , 2013.

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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. 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 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, and the underwriters have not, authorized anyone else to give you different information. We are not, and the underwriters are not, offering the notes in any jurisdiction where the offer is not permitted. You should not assume that the information contained or incorporated by reference in this prospectus supplement or in the accompanying prospectus is accurate as of any date other than the date on the front of those respective 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 (1) Energy Transfer, ETP, we, us, our and similar terms, as well as references to the Partnership, are to Energy Transfer Partners, L.P. and all of its subsidiaries, and (2) ETE are to Energy Transfer Equity, L.P., the owner of our general partner. 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 not to any of its subsidiaries.

Energy Transfer Partners, L.P.

Overview

We are a publicly traded limited partnership that owns and operates, through our subsidiaries and joint ventures, a diversified portfolio of energy assets, including interstate and intrastate natural gas, natural gas liquids, or NGLs, refined products and crude oil pipelines; natural gas storage, treating and conditioning facilities; natural gas processing plants and retail gasoline stations. We operate our business in six primary segments:

intrastate natural gas transportation and storage;

interstate natural gas transportation and storage;

midstream;

NGL transportation and services;

investment in Sunoco Logistics Partners L.P., or Sunoco Logistics; and

retail marketing.

Our other operations include natural gas distribution and our ownership of interests in certain businesses engaged in compression services, retail propane distribution and refining. In April 2013, we completed our acquisition of ETE's 60% interest in ETP Holdco Corporation, or ETP Holdco, and, as a result, we own 100% of ETP Holdco, which owns Southern Union Company, or Southern Union, and Sunoco, Inc., or Sunoco. Additionally, in April 2013, Southern Union completed its contribution of its gathering system operated by Southern Union Gas Services, or SUGS, to Regency Energy Partners LP, or Regency, in exchange for cash, 31.4 million Regency common units and 6.3 million Regency Class F common units. Effective September 1, 2013, Southern Union also completed the sale of its Missouri Gas Energy division. Please read Recent Developments for more information on this sale, as well as Southern Union's pending sale of its New England Gas Company division.

Our Business

Intrastate Natural Gas Transportation and Storage

We own and operate approximately 7,800 miles of intrastate natural gas transportation pipelines, which is the largest intrastate pipeline system in the United States, and three natural gas storage facilities in Texas. Our intrastate pipeline system has an aggregate throughput capacity of approximately 14.1 billion cubic feet per day,

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or Bcf/d, and interconnects to many major consumption areas in the United States. For the year ended December 31, 2012, we transported an average of 9.8 Bcf/d of natural gas through our intrastate natural gas pipeline system.

Our intrastate natural gas transportation and storage segment's results are determined primarily by the amount of fees we charge our customers to reserve capacity as well as the actual volume of natural gas that flows through the transportation pipelines.

We also provide natural gas storage services to third parties for which we charge storage fees as well as engage in natural gas storage transactions in which we profit from pricing differences that occur over time.

Interstate Natural Gas Transportation and Storage

Through our interstate natural gas transportation and storage segment, we directly own and operate approximately 12,600 miles of interstate natural gas pipeline, with an aggregate throughput capacity of approximately 10.8 Bcf/d, and have a 50% interest in the joint venture that owns the 185-mile Fayetteville Express pipeline, which has a throughput capacity of approximately 2.0 Bcf/d. We also own a 50% interest in Citrus Corp., or Citrus, which owns 100% of Florida Gas Transmission Company, or FGT, which owns and operates an approximately 5,400-mile pipeline system with a throughput capacity of approximately 3.1 Bcf/d that extends from South Texas through the Gulf Coast to South Florida. For the year ended December 31, 2012, we transported an average of 3.0 Bcf/d of natural gas on our interstate natural gas pipelines, excluding the assets of Southern Union's subsidiary, Panhandle Eastern Pipeline Company, or Panhandle.

Our interstate natural gas transportation and storage segment includes Panhandle, which owns and operates a large natural gas open-access interstate pipeline network. The pipeline network, consisting of the PEPL, Trunkline and Sea Robin transmission systems, serves customers in the Midwest, Gulf Coast and Midcontinent United States with a comprehensive array of transportation and storage services. In connection with its natural gas pipeline transmission and storage systems, Panhandle has five natural gas storage fields located in Illinois, Kansas, Louisiana, Michigan and Oklahoma. Pan Gas Storage, LLC, doing business as Southwest Gas, operates four of these fields and Trunkline Gas Company, LLC operates one. Through Trunkline LNG Company, LLC, or Trunkline LNG Company, Panhandle owns and operates a liquefied natural gas terminal in Lake Charles, Louisiana. For the year ended December 31, 2012, Panhandle transported an average of 3.8 Bcf/d of natural gas on its natural gas open-access interstate pipeline network.

The results from our interstate transportation and storage segment are primarily derived from the fees we earn from natural gas transportation and storage services.

Midstream

Through our midstream segment, we own and operate approximately 6,700 miles of in-service natural gas and NGL gathering pipelines aggregating a combined capacity of approximately 5.6 Bcf/d, four natural gas processing plants with an aggregate capacity of 1.0 Bcf/d, 15 natural gas treating facilities with an aggregate capacity of 2.2 Bcf/d and three natural gas conditioning facilities with an aggregate capacity of 0.3 Bcf/d. 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 and shales, including the Austin Chalk trend and Eagle Ford Shale in South and Southeast Texas, the Barnett Shale and Woodford Shale in North Texas, the Bossier Sands in East Texas, the Marcellus Shale in West Virginia, and the Haynesville Shale in East Texas and Louisiana. Many of our midstream assets are integrated with our intrastate transportation and storage assets. For the year ended December 31, 2012, excluding the operations of SUGS which we contributed to Regency in April 2013, we averaged gathering volumes of 2.4 Bcf/d and NGL production averaged 79,640 barrels per day, or Bbls/d.

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Our midstream segment results are derived primarily from margins we earn for natural gas volumes that are gathered, transported, purchased and sold through our pipeline systems and the natural gas and NGL volumes processed at our processing and treating facilities.

NGL Transportation and Services

Through our NGL transportation and services segment, we own and operate approximately 300 miles of NGL pipelines with aggregate throughput capacity of approximately 320,000 Bbls/d and have a 50% interest in the Liberty pipeline, an approximately 85-mile NGL pipeline with aggregate throughput capacity of approximately 90,000 Bbls/d. We also have a 70% interest in Lone Star NGL LLC, which owns approximately 2,000 miles of NGL pipelines with aggregate throughput capacity of approximately 342,000 Bbls/d, three NGL processing plants with aggregate capacity of 26,000 Bbls/d, two fractionation facilities with aggregate capacity of approximately 125,000 Bbls/d and NGL storage facilities with aggregate working storage capacity of approximately 47 million barrels. One of the fractionation facilities and most of the NGL storage facilities are located at Mont Belvieu, Texas, and the NGL pipelines primarily transport NGL from the Permian and Delaware basins and the Barnett Shale and Eagle Ford Shale to Mont Belvieu. For the year ended December 31, 2012, we averaged NGL transportation volumes of 172,569 Bbls/d and NGL fractionation volumes of 17,754 Bbls/d.

NGL storage revenues are derived from base storage fees that are tied to the volume of capacity reserved, regardless of use, and throughput fees for providing ancillary services, including receipt and delivery, custody transfer and rail/truck loading and unloading fees.

NGL transportation revenue is principally generated from fees charged to customers under dedicated contracts to deliver the total output from particular processing plants or take-or-pay contracts which have minimum throughput commitments requiring the customer to pay regardless of whether a fixed volume is transported.

Investment in Sunoco Logistics

In connection with the completion of our acquisition of Sunoco and certain related transactions in October 2012, we acquired the general partner interests, all of the incentive distribution rights and a 32.4% limited partner interest in Sunoco Logistics. Sunoco Logistics operates crude oil pipelines, crude oil acquisition and marketing, terminal facilities and refined products pipelines primarily in the Northeast, Midwest and Southwest regions of the United States. In addition, the investment in Sunoco Logistics segment has ownership interests in several refined product pipeline joint ventures. Sunoco Logistics' crude oil pipelines transport crude oil principally in Oklahoma and Texas. Crude oil transportation pipelines primarily deliver to and connect with other pipelines that deliver crude oil to a number of third-party refineries. Sunoco Logistics' crude oil pipelines consist of approximately 4,900 miles of crude oil trunk pipelines and approximately 500 miles of crude oil gathering lines that supply the trunk pipelines. The throughput on Sunoco Logistics' pipelines was approximately 1.56 million Bbls/d for the year ended December 31, 2012.

Sunoco Logistics' crude oil acquisition and marketing business gathers, purchases, markets and sells crude oil principally in the Midcontinent United States, utilizing its fleet of approximately 200 crude oil transport trucks, approximately 120 crude oil truck unloading facilities and third-party assets. For the year ended December 31, 2012, the average daily volumes for crude oil purchases and sales was 673,000 Bbls/d and 669,000 Bbls/d, respectively.

Sunoco Logistics' refined products terminal facilities receive refined products from pipelines, barges, railcars and trucks and transfer them to or from storage or transportation systems, such as pipelines, to other transportation systems, such as trucks or other pipelines. Sunoco Logistics terminal facilities consist of an aggregate crude oil and refined products capacity of approximately 40 million barrels, including the 22 million

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barrel Nederland, Texas crude oil terminal; the 5 million barrel Eagle Point, New Jersey refined products and crude oil terminal; approximately 41 active refined products marketing terminals located in the Northeast, Midwest and Southwest United States; and several refinery terminals located in the Northeast United States. For the year ended December 31, 2012, the total average daily throughput was 487,000 Bbls/d for the 41 refined products marketing terminals, 724,000 Bbls/d for the Nederland terminal and 56,000 Bbls/d at the Eagle Point terminal.

Sunoco Logistics' refined product pipelines transport refined products, including multiple grades of gasoline, middle distillates (such as heating oil, diesel and jet fuel) and liquefied petroleum gases (such as propane and butane) from refineries to markets. Sunoco Logistics' refined products pipelines consist of approximately 2,500 miles of refined product pipelines and joint venture interests in four refined products pipelines in selected areas of the United States. Average daily throughput on the refined products pipelines for the year ended December 31, 2012 was 582,000 Bbls/d.

Retail Marketing

Our retail marketing business segment consists of Sunoco's marketing operations, which sell gasoline and middle distillates at retail and operates convenience stores in 25 states, primarily on the East Coast and in the Midwest region of the United States. The highest concentrations of outlets are located in Connecticut, Florida, Maryland, Massachusetts, Michigan, New Jersey, New York, Ohio, Pennsylvania and Virginia. Some of these outlets are traditional locations that sell fuel products under the Sunoco® and Coastal® brands whereas others are APlus® convenience stores or Ultra Service Centers® that provide automotive diagnostics and repair. Our branded fuels sales (including middle distillates) averaged 318,000 Bbls/d from the closing of our acquisition of Sunoco on October 5, 2012 through December 31, 2012. The Sunoco® brand is positioned as a premium brand, and is the official fuel of NASCAR® and the INDYCAR® series through 2019 and 2014, respectively. Additionally, our APlus® convenience stores are the official convenience stores of NASCAR®.

Other Operations

Our other operations consist of (i) natural gas compression services and a natural gas compression equipment business; (ii) an approximate 23.8% limited partner interest in AmeriGas Partners, L.P., which is engaged in retail propane marketing; (iii) the local distribution of natural gas in Massachusetts through Southern Union; (iv) an approximate 30% non-operating interest in a joint venture with The Carlyle Group, L.P., which owns a refinery in Philadelphia and (v) an approximate 15% limited partner interest in Regency and ownership of 6.3 million Regency Class F common units. Effective September 1, 2013, Southern Union completed the sale of its Missouri Gas Energy division. Please read "Recent Developments" for more information on this sale, as well as Southern Union's pending sale of its New England Gas Company division.

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 internally generated expansion and measures aimed at increasing the profitability of our existing assets. 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 we are well-positioned to compete in the natural gas, NGL and crude oil industries 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.

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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 ETE, the entity that indirectly owns our general partner, and therefore benefits from incentive distribution payments we make to our general partner.

We intend to accomplish our business strategy by executing on the following operating strategies:

Enhancing profitability of existing assets. We intend to increase the profitability of our existing asset base by adding new volumes of natural gas and NGLs under long-term producer commitments, increasing refined product and crude oil pipeline and terminal throughput, undertaking additional initiatives to enhance utilization, reducing costs by improving operations and realizing operational and commercial synergies by focusing on the integration of our recently acquired assets.

Engaging in construction and expansion opportunities. We intend to leverage our existing infrastructure and customer relationships by constructing and expanding our natural gas, NGL and crude oil systems to meet new or increased demand for midstream and transportation services. Further, we intend to continue expansion capital projects on our existing refined products and crude oil assets to, among other things, expand services at our refined products terminals and increase tankage at our terminalling facilities.

Increasing 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 commodity prices.

Recent Developments

Sale of Missouri Gas Energy. In December 2012, we announced that Southern Union had entered into definitive purchase and sale agreements dated December 14, 2012 with each of Plaza Missouri Acquisition, Inc., or Laclede Missouri, and Plaza Massachusetts Acquisition, Inc., or Laclede Massachusetts, both of which are subsidiaries of the Laclede Group, Inc., or Laclede, pursuant to which Laclede Missouri has agreed to acquire the assets of Southern Union's Missouri Gas Energy division, and Laclede Massachusetts has agreed to acquire the assets of Southern Union's New England Gas Company division. On February 11, 2013, Laclede announced that it had entered into an agreement with Algonquin Power & Utilities Corp., or APUC, that will allow a subsidiary of APUC to assume the right of Laclede Massachusetts to purchase the assets of Southern Union's New England Gas Company division, subject to certain approvals. Southern Union completed its sale of the Missouri Gas Energy division effective September 1, 2013, and we expect the sale of the New England Gas Company division to be completed during the fourth quarter of 2013, subject to the receipt of required regulatory approval. The aggregate value of these transactions is approximately \$1.035 billion, comprised of \$1.015 billion in cash and approximately \$20 million of assumed debt of the New England Gas Company division. We refer to these transactions as the Southern Union local distribution company dispositions.

Unit Exchange Transaction. On August 7, 2013, we entered into an Exchange and Redemption Agreement, or the Exchange Agreement, with ETE and ETE Common Holdings, LLC, or ETE Holdings, a wholly owned subsidiary of ETE, pursuant to which we agreed to redeem and cancel 50,160,000 of our common units currently owned by ETE Holdings in exchange for the issuance by us to ETE Holdings of 50,160,000 Class H Units representing a new class of limited partner interests in ETP. The Class H Units will generally be entitled to (i) allocations of profits, losses and other items from us corresponding to 50.05% of the profits, losses and other items allocated to us by Sunoco Partners LLC, or SXL GP, the general partner of Sunoco Logistics, with respect to the incentive distribution rights and general partner interest in Sunoco Logistics held by SXL GP,

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(ii) distributions from us for each quarter equal to 50.05% of the cash distributed to us by SXL GP with respect to the incentive distribution rights and general partner interest in Sunoco Logistics held by SXL GP for such quarter and, to the extent not previously distributed to holders of the Class H Units, for any previous quarters and (iii) incremental cash distributions in the aggregate amount of \$329,000,000, subject to adjustment, to be payable by us to ETE Holdings over 15 quarters, commencing with the quarter ending September 30, 2013 and ending with the quarter ending March 31, 2017. The transaction is subject to certain customary closing conditions and is expected to close prior to November 1, 2013.

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, please read 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	<p>We are offering \$ _____ aggregate principal amount of notes of the following series:</p> <p style="padding-left: 40px;">\$ _____ % Senior Notes due 20____ ;</p> <p style="padding-left: 40px;">\$ _____ % Senior Notes due 20____ ; and</p> <p style="padding-left: 40px;">\$ _____ % Senior Notes due 20____ .</p>
Maturity	<p>Unless redeemed prior to maturity as described below, the 20____ notes will mature on _____, 20____, the 20____ notes will mature on _____, 20____ and the 20____ notes will mature on _____, 20____.</p>
Interest Rate	<p>Interest on the 20____ notes will accrue at the per annum rate of _____%, interest on the 20____ notes will accrue at the per annum rate of _____% and interest on the 20____ notes will accrue at the per annum rate of _____%.</p>
Interest Payment Dates	<p>Interest on the notes will accrue from, and including, the issue date of the notes and be payable semiannually on _____ and _____ of each year, beginning on _____, 2014.</p>
Ranking	<p>The notes will be our unsecured senior obligations. The notes will rank equally with all of our other current and future unsecured senior debt, including our existing senior notes and Sunoco's existing senior notes and debentures of which we are a co-obligor, senior to all of our current and future subordinated debt, including our existing junior subordinated notes, and junior to the indebtedness and other obligations, including trade payables, of our subsidiaries.</p> <p>As of June 30, 2013, after giving effect to (i) the repayment of \$350 million aggregate principal amount of our 6.000% Senior Notes due July 1, 2013, or our 6.000% Senior Notes, (ii) the repayment of \$250 million aggregate principal amount of Panhandle's 6.050% Senior Notes due August 15, 2013, or the Panhandle 6.050% Senior Notes, (iii) the sale of the Missouri Gas Energy division by Southern Union and the use of the cash consideration therefrom as described in "Capitalization" and (iv) the offering of the notes and the application of the net proceeds therefrom as described in "Use of Proceeds,"</p>

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the notes would have been structurally subordinated to \$5.1 billion of indebtedness of our subsidiaries, consisting of \$870 million of indebtedness of our wholly owned subsidiary, Transwestern Pipeline Company, LLC, or Transwestern, \$1.1 billion of indebtedness of Southern Union and Panhandle, \$965 million of indebtedness of Sunoco (of which we are a co-obligor) and \$2.2 billion of indebtedness of Sunoco Logistics. Please

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read Description of Notes Ranking and Description of Notes Subsidiary Guarantees. In addition, as of June 30, 2013, our unconsolidated joint ventures, FEP, Citrus and FGT, had outstanding \$3.0 billion of indebtedness, consisting of \$600 million of borrowings outstanding under FEP's term loan; \$144 million of borrowings outstanding under Citrus \$200 million revolving credit facility and \$500 million of borrowings outstanding under Citrus' construction term loan; and \$1.8 billion in aggregate principal amount of FGT's senior notes. FGT is a party to a \$200 million revolving credit facility which was undrawn as of June 30, 2013. Please read Description of Other Indebtedness Unconsolidated Joint Ventures.

Optional Redemption

We may redeem the notes of each series for cash, in whole or in part at any time and from time to time, at our option at the applicable redemption prices 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.

Use of Proceeds

We anticipate using the net proceeds of this offering to repay all of the borrowings outstanding under the term loan of Panhandle's wholly owned subsidiary, Trunkline LNG Holdings, LLC, or Trunkline LNG and to repay borrowings outstanding under our revolving credit facility. Please read Use of Proceeds.

Affiliates of certain of the underwriters are lenders under Trunkline LNG's term loan and under our revolving credit facility and, accordingly, will receive a substantial portion of the net proceeds from this offering. Please read Underwriting Other Relationships.

Further Issuances

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 date, issue price and in some cases, the first interest payment date, so that such additional notes will form a single series with the applicable series of notes offered by this prospectus supplement and will have substantially identical terms as such series, including with respect to ranking, redemption and otherwise.

Risk Factors

Investing in the notes involves risks. See Risk Factors beginning on page S-10 of this prospectus supplement and the risk factors set forth on page 4 of the accompanying prospectus and in our, Southern Union's and Sunoco Logistics' Annual Reports on Form 10-K for the year ended December 31, 2012, in each case as updated by our, Southern Union's and Sunoco Logistics' subsequent Quarterly Reports on Form 10-Q, together with all of the other information included in, or incorporated by reference into, this prospectus supplement and the accompanying prospectus before investing in the notes.

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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:

	Years Ended December 31,					Six Months Ended
	2008	2009	2010	2011	2012	June 30, 2013
Ratio of Earnings to Fixed Charges	4.01	2.93	2.39	2.45	3.61	2.98
For this ratio, earnings consist of:						

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.

Fixed charges consist of:

interest expensed;

interest capitalized;

amortized debt issuance costs; and

estimated interest element of rentals.

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RISK FACTORS

An investment in the notes involves risks. You should consider carefully the following risk factors and the risk factors set forth beginning on page 4 of the accompanying prospectus and in our, Southern Union's and Sunoco Logistics' Annual Reports on Form 10-K for the year ended December 31, 2012, in each case as updated by our, Southern Union's and Sunoco Logistics' subsequent Quarterly Reports on Form 10-Q, 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 of the notes at maturity, 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 structurally subordinated to liabilities and indebtedness of our subsidiaries and effectively subordinated to any of our future secured indebtedness to the extent of the value 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 structurally 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 subsidiaries that guarantee the notes in the future. If that were to occur, the claims of creditors of a guaranteeing subsidiary would also rank structurally senior to the notes, to the extent of the assets of that subsidiary. As of June 30, 2013, after giving effect to (i) the repayment of \$350 million aggregate principal amount of our 6.000% Senior Notes, (ii) the repayment of \$250 million aggregate principal amount of the Panhandle 6.050% Senior Notes, (iii) the sale of the Missouri Gas Energy division by Southern Union and the use of the cash consideration therefrom as described in Capitalization and (iv) the offering of the notes and the application of the net proceeds therefrom as described in Use of Proceeds, the notes would have been structurally subordinated to \$5.1 billion of indebtedness of our subsidiaries, consisting of \$870 million of indebtedness of Transwestern, \$1.1 billion of indebtedness of Southern Union and Panhandle, \$965 million of indebtedness of Sunoco (of which we are a co-obligor) and \$2.2 billion of indebtedness of Sunoco Logistics. Furthermore, such subsidiaries will not be prohibited under the indenture from incurring additional indebtedness and any such indebtedness will rank structurally senior to the notes with respect to the assets of such subsidiaries. Our unconsolidated joint ventures, FEP, Citrus and FGT, are also parties to revolving and other credit facilities and have outstanding senior unsecured notes. As of June 30, 2013, FEP had \$600 million of borrowings outstanding under its term loan; Citrus had \$144 million of borrowings outstanding under its \$200 million revolving credit facility and \$500 million of borrowings outstanding under its construction term loan; and FGT had \$1.8 billion in aggregate principal amount of senior notes and no amounts drawn under its \$200 million revolving credit facility. Please read Description of Other Indebtedness Unconsolidated Joint Ventures.

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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.

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, we are required by our partnership agreement 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 new issues of securities for which there are no established public markets. 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 on any automated dealer quotation system. In addition, although the underwriters have informed us that they intend to make a market in the notes of each series, as permitted by applicable laws and regulations, they are not obligated to make markets in the notes, and they may discontinue their market-making activities at any time without notice. Active markets for the notes may not develop or, if developed, may not continue. In the absence of active trading markets, you may not be able to transfer the notes within the time or at the prices you desire.

We have subsidiaries that will be treated as corporations for federal income tax purposes and subject to corporate-level income taxes.

Even though we (as a partnership for U.S. federal income tax purposes) are not subject to entity-level U.S. federal income tax, our acquisition of Sunoco and our acquisition of all of the equity interests in ETP Holdco have resulted in an increase in the proportion of our operations that are conducted through subsidiaries that are organized as C corporations. Such corporate subsidiaries are subject to corporate-level tax, the payment of which will reduce the cash otherwise available for servicing the notes and repaying them at maturity.

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USE OF PROCEEDS

We expect to receive net proceeds of approximately \$ million from the sale of the notes we are offering, after deducting the underwriting discounts and estimated offering expenses payable by us. We anticipate using the net proceeds of this offering to repay all of the borrowings outstanding under the Trunkline LNG term loan and to repay borrowings outstanding under our revolving credit facility.

As of September 10, 2013, an aggregate of \$455 million of borrowings were outstanding under the Trunkline LNG term loan. The term loan matures on February 23, 2015 and the effective interest rate on the total amount outstanding at September 10, 2013 was 1.81%.

As of September 10, 2013, there was a balance of \$900 million in revolving credit loans outstanding under our revolving credit facility, and there were \$81 million of letters of credit outstanding. The weighted average interest rate on the total amount outstanding at September 10, 2013 was 1.68%. Our revolving credit facility matures on October 27, 2016. We used borrowings under our revolving credit facility to fund growth capital expenditures and working capital requirements.

Affiliates of certain of the underwriters are lenders under Trunkline LNG's term loan and under our revolving credit facility and, accordingly, will receive a substantial portion of the net proceeds from this offering. Please read Underwriting Other Relationships.

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The following table sets forth our consolidated cash and capitalization as of June 30, 2013:

on an actual basis;

as adjusted to give effect to (i) the repayment of \$350 million aggregate principal amount of our 6.000% Senior Notes, (ii) the repayment of \$250 million aggregate principal amount of the Panhandle 6.050% Senior Notes and (iii) the sale of the Missouri Gas Energy division by Southern Union and the use of the cash consideration therefrom to repay borrowings under our revolving credit facility; and

as further adjusted to give effect to the public offering of the notes pursuant to this prospectus supplement and the application of the net proceeds as described in 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, 2012 and our Quarterly Report on Form 10-Q for the quarter ended June 30, 2013, which are incorporated by reference in this prospectus supplement.

	As of June 30, 2013		
	Actual	As Adjusted (Dollars in millions)	As Further Adjusted for Notes Offering
Cash and cash equivalents(1)	\$ 532	\$ 532	\$
Debt, including current maturities:			
ETP			
Revolving credit facility(2)	\$ 900	\$ 525	\$
Existing senior notes(3)	10,451	10,101	10,101
Existing junior subordinated notes	546	546	546
Senior notes offered hereby			
Transwestern			
Senior notes	870	870	870
Southern Union			
Senior notes	116	116	116
Junior subordinated notes	54	54	54
Panhandle			
Term loan	455	455	
Senior notes	1,166	916	916
Sunoco Logistics			
\$350 million revolving credit facility			
\$200 million revolving credit facility			
\$35 million revolving credit facility	35	35	35
Senior notes	2,150	2,150	2,150
Unamortized discounts and other	395	395	395
Total long-term debt	17,138	16,163	
Total partners' capital	12,098	12,098	12,098
Noncontrolling interest	4,685	4,685	4,685
Total equity	16,783	16,783	16,783
Total capitalization	\$ 33,921	\$ 32,946	\$

- (1) As of July 31, 2013, we had total cash and cash equivalents of \$731 million.
- (2) As of September 10, 2013, there was a balance of \$900 million of revolving credit loans outstanding and \$81 million of letters of credit were issued under our revolving credit facility.
- (3) Includes \$965 million of aggregate principal amount of Sunoco's existing senior notes and debentures, of which ETP is a co-obligor.

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The table above does not include the outstanding indebtedness of our unconsolidated joint ventures, FEP, Citrus and FGT. As of June 30, 2013, FEP had \$600 million of borrowings outstanding under its term loan; Citrus had \$144 million of borrowings outstanding under its \$200 million revolving credit facility and \$500 million of borrowings outstanding under its construction term loan; and FGT had no amounts drawn under its \$200 million revolving credit facility and \$1.8 billion in aggregate principal amount of senior notes.

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DESCRIPTION OF OTHER INDEBTEDNESS

General

Our indebtedness as of June 30, 2013 (not including debt of our subsidiaries) consisted of (i) a revolving credit facility that allows for borrowings of up to \$2.5 billion (expandable to \$3.75 billion, subject to additional lender commitments) available through October 27, 2016, unless extended, (ii) Floating Rate Junior Subordinated Notes due 2066, or our junior subordinated notes, and (iii) the following series of senior notes, which we refer to collectively as our existing senior notes:

\$350 million in principal amount of 6.000% Senior Notes due 2013;

\$292 million in principal amount of 8.500% Senior Notes due 2014;

\$750 million in principal amount of 5.950% Senior Notes due 2015;

\$400 million in principal amount of 6.125% Senior Notes due 2017;

\$600 million in principal amount of 6.700% Senior Notes due 2018;

\$400 million in principal amount of 9.700% Senior Notes due 2019;

\$450 million in principal amount of 9.000% Senior Notes due 2019;

\$800 million in principal amount of 4.650% Senior Notes due 2021;

\$1 billion in principal amount of 5.200% Senior Notes due 2022;

\$800 million in principal amount of 3.600% Senior Notes due 2023;

\$277.5 million in principal amount of 7.600% Senior Notes due 2024;

\$266.7 million in principal amount of 8.250% Senior Notes due 2029;

\$400 million in principal amount of 6.625% Senior Notes due 2036;

\$550 million in principal amount of 7.500% Senior Notes due 2038;

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\$700 million in principal amount of 6.050% Senior Notes due 2041;

\$1 billion in principal amount of 6.500% Senior Notes due 2042; and

\$450 million in principal amount of 5.150% Senior Notes due 2043.

On July 1, 2013, we repaid our 6.000% Senior Notes due 2013 at maturity. In addition to the above indebtedness, we are a co-obligor of the following outstanding senior notes and debentures of Sunoco, which we refer to collectively as the Sunoco senior notes:

\$250 million in principal amount of 9.625% Senior Notes due 2015;

\$400 million in principal amount of 5.75% Senior Notes due 2017;

\$250 million in principal amount of 4 7/8% Senior Notes due 2014; and

\$65 million in principal amount of 9.00% Debentures due 2024.

Our other subsidiaries, Transwestern, Southern Union, Panhandle and Sunoco Logistics (through its subsidiaries, Sunoco Logistics Partners Operations L.P., or Sunoco Operations, and Sunoco Marketing), also have outstanding debt as described below.

The failure by us and our subsidiaries to comply with the various restrictive and affirmative covenants of our respective debt agreements could require us and our subsidiaries to repay outstanding debt prior to its maturity and could negatively affect our and our subsidiaries' ability to incur additional debt. Various of our and our subsidiaries' debt agreements require us and our subsidiaries to measure certain financial tests and covenants

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quarterly and, as of June 30, 2013, we and our subsidiaries were in compliance with all of the covenants, including the financial requirements, tests, limitations, and covenants related to financial ratios, under our respective existing debt agreements.

ETP Revolving Credit Facility

On October 27, 2011, we amended and restated our revolving credit facility with Wells Fargo Bank, National Association, as administrative agent, swingline lender and an LC issuer, and Wells Fargo Securities, LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated and RBS Securities Inc., as joint lead arrangers and joint book managers, and certain other agents and lenders. The credit facility provides for \$2.5 billion of revolving credit capacity that is expandable to \$3.75 billion at our option (subject to obtaining lender commitments for the additional borrowing capacity). The credit facility matures on October 27, 2016, 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 LIBOR rate or a base rate, at our option, plus an applicable margin. The applicable margin and applicable rate used in connection with the interest rates and commitment fees, respectively, are based on the credit ratings assigned to our senior, unsecured, non-credit enhanced long-term debt. The applicable margin for LIBOR rate loans ranges from 1.125% to 1.750% and the applicable margin for base rate loans ranges from 0.125% to 0.750%. 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 (\$2.5 billion unless expanded to \$3.75 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. We may prepay the indebtedness under the credit facility 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 ranges from 0.175% to 0.300%. Currently, the applicable rate for commitment fees is 0.25%.

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; enter into restrictive agreements; and enter into speculative hedging contracts.

The 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 agreement, 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 agreement.

As of June 30, 2013, there was a balance of \$900 million in revolving credit loans outstanding and \$107 million in letters of credit issued. The weighted average interest rate on the total amount outstanding at June 30, 2013 was 1.70%. The total amount available for additional borrowing under the credit facility, as of June 30, 2013, was \$1.49 billion. The indebtedness under the credit facility is unsecured and not guaranteed by any of our subsidiaries. The indebtedness under the credit facility is and will be pari passu with our other current and future unsecured debt.

ETP Existing Senior Notes and Sunoco Senior Notes

Our existing senior notes and the Sunoco 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 existing senior notes and the Sunoco senior notes are not guaranteed by any of our subsidiaries, and therefore, structurally rank junior to all indebtedness and other liabilities of our existing and future subsidiaries.

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Each series of existing senior notes (other than the 4.650% Senior Notes due 2021, 5.200% Senior Notes due 2022, 3.600% Senior Notes due 2023, 7.600% Senior Notes due 2024, 8.250% Senior Notes due 2029, 6.050% Senior Notes due 2041, 6.500% Senior Notes due 2042 and 5.150% Senior Notes due 2043) is redeemable, in whole or in part, at any time at our option, at a price equal to 100% of the principal amount of such senior notes plus a make-whole premium and accrued and unpaid interest, if any, to the redemption date. Each of the 4.650% Senior Notes due 2021, 5.200% Senior Notes due 2022, 3.600% Senior Notes due 2023, 6.050% Senior Notes due 2041, 6.500% Senior Notes due 2042 and 5.150% Senior Notes due 2043 is redeemable, in whole or in part, (i) at a price equal to 100% of the principal amount of such senior notes plus a make-whole premium if the redemption occurs before the date that is six months prior to maturity or (ii) at par if the redemption occurs on or after the date that is six months prior to maturity, in each case plus accrued and unpaid interest, if any, to the redemption date. Each of the 7.600% Senior Notes due 2024 and the 8.250% Senior Notes due 2029 is redeemable, in whole or in part, (i) at a price equal to 100% of the principal amount of such senior notes plus a make-whole premium if the redemption occurs before the date that is three months prior to maturity or (ii) at par if the redemption occurs on or after the date that is three months prior to maturity, in each case plus accrued and unpaid interest, if any, to the redemption date.

The Sunoco senior notes (other than the 9.00% Debentures due 2024) are redeemable, in whole or in part, at any time at our and Sunoco's option, at a price equal to 100% of the principal amount of such senior notes plus a make-whole premium and accrued and unpaid interest, if any, to the redemption date. The 9.00% Debentures due 2024 are not redeemable prior to maturity. Interest on our existing senior notes and the Sunoco senior notes is payable semi-annually.

The existing senior notes and the Sunoco senior notes were issued under indentures containing covenants that restrict our (and, with respect to the Sunoco senior notes, our and Sunoco's) ability to, subject to certain exceptions, incur debt secured by liens; engage in sale and leaseback transactions; and merge or consolidate with another entity or sell substantially all of our assets.

ETP Junior Subordinated Notes

Our junior subordinated notes, which mature on November 1, 2066, are unsecured and rank junior and are subordinated, to the extent and in the manner set forth in the indenture governing such notes, in right of payment and upon liquidation to the prior payment in full of all of our senior indebtedness.

Interest on the junior subordinated notes accrues from June 24, 2013, at a floating rate calculated as three-month LIBOR for the related interest period plus 3.0175% per annum, reset quarterly, and we pay interest quarterly in arrears on February 1, May 1, August 1 and November 1 of each year. Interest on the junior subordinated notes compounds on the outstanding principal balance and any accrued and unpaid interest. So long as no event of default with respect to the junior subordinated notes is continuing, we may elect to defer interest payments on the junior subordinated notes for a period of up to 10 consecutive years (but not beyond the maturity date or redemption date of the notes). During any such deferral period interest will continue to accrue on the junior subordinated notes at the applicable floating rate.

We have the option to redeem the junior subordinated notes in whole or in part and from time to time at a redemption price equal to 100% of the principal amount of the notes to be redeemed plus accrued and unpaid interest thereon to, but excluding, the redemption date.

During any period in which interest payments are being deferred, we may not declare or pay dividends on, or redeem, purchase, or acquire, any of our partnership securities, make certain interest or principal payments or make certain guarantee payments with respect to our indebtedness or guarantees ranking junior to or pari passu with the junior subordinated notes. The indenture governing the junior subordinated notes does not restrict our or our subsidiaries from incurring additional indebtedness, creating liens on our property for any purpose or paying distributions on our equity interests or purchasing or redeeming our equity interests (except as described in the

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previous sentence), nor does it 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 us to repurchase or redeem or otherwise modify the terms of the junior subordinated notes upon a change in control or other events involving us. Events of default under the indenture include (i) non-payment of principal when due, (ii) non-payment of interest within 30 days after such interest is due (other than permitted interest deferrals), or (iii) certain events of bankruptcy, insolvency or reorganization. With respect to the junior subordinated notes, a failure to comply with the other covenants under the indenture does not constitute an event of default. Upon the occurrence of an event of default under the indenture, the trustee or the holders of at least 25% of the principal amount of the junior subordinated notes will have the right to declare the principal amount of the notes, and any accrued interest, immediately due and payable.

Transwestern Debt

As of June 30, 2013, Transwestern had the following outstanding series of unsecured notes, which we refer to collectively as the Transwestern notes:

\$88 million in principal amount of 5.39% Senior Notes due 2014;

\$125 million in principal amount of 5.54% Senior Notes due 2016;

\$82 million in principal amount of 5.64% Senior Notes due 2017;

\$175 million in principal amount of 5.36% Senior Notes due 2020;

\$150 million in principal amount of 5.89% Senior Notes due 2022;

\$175 million in principal amount of 5.66% Senior Notes due 2024; and

\$75 million in principal amount of 6.16% Senior Notes due 2037.

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. Transwestern may prepay the Transwestern notes 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, subject to certain exceptions, limit the amount of Transwestern's debt, restrict its sale of assets and payment of dividends and require it to maintain certain debt to capitalization ratios.

Southern Union and Panhandle Debt

As of June 30, 2013, Southern Union's indebtedness consisted of the following senior and junior subordinated notes:

\$82.3 million in principal amount of 7.60% Senior Notes due 2024;

\$33.3 million in principal amount of 8.25% Senior Notes due 2029; and

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\$54 million in principal amount of Floating Rate Junior Subordinated Notes due 2066.

As of June 30, 2013, the indebtedness of Panhandle, a wholly owned subsidiary of Southern Union, consisted of a \$455 million term loan due 2015 and the following series of senior notes:

\$250 million in principal amount of 6.05% Senior Notes due 2013;

\$300 million in principal amount of 6.20% Senior Notes due 2017;

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\$150 million in principal amount of 8.125% Senior Notes due 2019;

\$66 million in principal amount of 7.00% Senior Notes due 2029; and

\$400 million in principal amount of 7.00% Senior Notes due 2018.

On August 15, 2013, Panhandle repaid its 6.05% Senior Notes due 2013 at maturity.

Southern Union

Senior Notes. Southern Union's senior notes represent its senior unsecured obligations and rank equally with all of its other existing and future unsecured and unsubordinated indebtedness. Southern Union's senior notes are not guaranteed by any of Southern Union's subsidiaries, and therefore, structurally rank junior to all indebtedness and other liabilities of its existing and future subsidiaries. Southern Union's senior notes are not redeemable prior to their respective maturity dates. In June 2013, Southern Union entered into a supplemental indenture to the indenture governing each series of senior notes to remove substantially all of the restrictive covenants and certain events of default contained therein and to modify certain other provisions.

Junior Notes. Southern Union's obligations under the junior notes are subordinate and junior in right of payment to all of its other indebtedness, except any indebtedness that by its terms is subordinated to, or ranks on an equal basis with, the junior notes. In addition, because the notes are not guaranteed by any of Southern Union's subsidiaries, the holders of junior notes generally have a junior position in right of payment to claims of creditors of Southern Union's subsidiaries and joint ventures. Subject to Southern Union's right to defer interest payments on the junior notes on one or more occasions for up to 10 consecutive years, interest on the junior notes is payable quarterly. Beginning on November 1, 2011, the interest rate is a floating rate based on three-month LIBOR plus 301.75 basis points, and is reset quarterly. Any deferred interest payments will accumulate additional interest at a rate equal to the interest rate then applicable to the junior notes, to the extent permitted by law. Southern Union may redeem the junior notes, in whole or in part, at any time at par, plus accrued and unpaid interest, if any, to the redemption date. In June 2013, Southern Union entered into a supplemental indenture to the indenture governing the junior notes to remove substantially all of the restrictive covenants and certain events of default contained therein and to modify certain other provisions.

Panhandle

Senior Notes. Panhandle's senior notes represent its senior unsecured obligations and rank equally with all of its other existing and future unsecured and unsubordinated indebtedness. Panhandle's existing senior notes are not guaranteed by any of its subsidiaries, and therefore, structurally rank junior to all indebtedness and other liabilities of its existing and future subsidiaries. Each series of Panhandle's senior notes is redeemable in whole or in part, at the option of Panhandle at any time, at a price of 100% of their principal amount plus a make-whole premium and accrued and unpaid interest to the redemption date. The indenture governing Panhandle's senior notes contains various covenants that limit, subject to certain exceptions, Panhandle's and its subsidiaries' ability to, among other things, incur additional indebtedness, pay distributions on, or repurchase or redeem Panhandle's equity interests, incur liens; enter into sale and leaseback transactions, enter into certain types of affiliates transactions and dispose of assets.

Term Loan. On February 23, 2012, Southern Union refinanced Trunkline LNG's term loan with a \$455 million unsecured term loan that matures on February 23, 2015. Both Panhandle and Trunkline LNG Company, a wholly owned subsidiary of Panhandle, are guarantors under the term loan. Amounts borrowed under the term loan bear interest at a rate based on either a LIBOR rate or a base rate, at Trunkline LNG's option, plus an applicable margin. The applicable margin used in connection with the interest rates are based on the credit ratings assigned to Panhandle's senior, unsecured, non-credit enhanced long-term debt. The applicable margin for LIBOR rate loans ranges from 1.125% to 2.25% and the applicable margin for base rate loans ranges from 0.125% to 1.25%. Trunkline LNG may prepay the term loan in whole or ratably in part, together with accrued interest to the date of such prepayment, without penalty (other than Eurodollar loan breakage costs, if any).

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The term loan includes covenants that limit (subject to certain exceptions) Panhandle's and Trunkline LNG's ability to, among other things, pay dividends and other restricted payments, enter into affiliate transactions, incur additional debt, sell asset and liens. Additionally, the term loan includes a financial covenant that requires Panhandle to maintain a leverage ratio of total debt to earnings before interest expense, income taxes and noncash items, such as depreciation, depletion, amortization and impairment, of not greater than 5.0 to 1.0, calculated at the end of each fiscal quarter for the four fiscal quarters then ended. As of June 30, 2013, the balance of the term loan was \$455 million, with an effective interest rate of 1.82%. We intend to use a portion of the net proceeds from this notes offering to repay all of the borrowings outstanding under the term loan.

Sunoco Logistics Debt

As of June 30, 2013, Sunoco Logistics' indebtedness consisted of a \$350 million unsecured credit facility of its wholly owned subsidiary, Sunoco Operations, maturing in August 2016, or the 2016 credit facility, and the following series of senior notes of Sunoco Operations:

\$175 million in principal amount of 8.75% Senior Notes due 2014;

\$175 million in principal amount of 6.125% Senior Notes due 2016;

\$250 million in principal amount of 5.50% Senior Notes due 2020;

\$300 million in principal amount of 4.65% Senior Notes due 2022;

\$350 million in principal amount of 3.45% Senior Notes due 2023;

\$250 million in principal amount of 6.85% Senior Notes due 2040;

\$300 million in principal amount of 6.10% Senior Notes due 2042; and

\$350 million in principal amount of 4.95% Senior Notes due 2043.

In addition, Sunoco Marketing had outstanding a \$200 million 364-day revolving unsecured credit facility that matured in August 2013 and was replaced by a new 364-day revolving unsecured credit facility on August 9, 2013. We refer to this new facility as the 2014 credit facility. As of June 30, 2013, West Texas Gulf Pipe Line Company, or West Texas Gulf, an entity in which Sunoco Logistics has a controlling financial interest, also had outstanding a \$35 million revolving credit facility maturing in April 2015.

2016 Credit Facility. On August 22, 2011, Sunoco Operations entered into the 2016 credit facility with Citibank, N.A., as administrative agent, swing line lender, lender and L/C issuer, and Citigroup Global Markets Inc. and Barclays Capital, as joint lead arrangers and book runners, and certain other agents and lenders. The 2016 credit facility provides for \$350 million of revolving credit capacity, with a \$100 million sub-limit for letters of credit and a \$50 million sub-limit for swing line loans, and matures on August 22, 2016. Sunoco Operations' obligations under the 2016 credit facility are guaranteed by Sunoco Logistics. Amounts borrowed under the 2016 credit facility bear interest at a rate based on either a LIBOR rate or a base rate, at Sunoco Operations' option, plus an applicable rate. The applicable rate used in connection with the interest rates and facility fees, respectively, are based on the credit ratings assigned to Sunoco Operations' non-credit enhanced, senior unsecured long-term debt. The applicable rate for LIBOR rate loans ranges from 0.850% to 1.650% and the applicable rate for base rate loans ranges from 0% to 0.650%. The applicable rate for the facility fee payable on the unused portion of the 2016 credit facility ranges from 0.150% to 0.350%. Sunoco Operations may prepay the indebtedness under the 2016 credit facility at any time at its option without premium or penalty.

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The credit agreement relating to the 2016 credit facility contains covenants that limit (subject to certain exceptions) the ability of Sunoco Logistics, Sunoco Operations and their respective subsidiaries to, among other things, incur indebtedness; grant liens; make loans, acquisitions and investments; make any material change to the nature of their business; enter into a merger or sale of assets; and enter into speculative hedging contracts. The credit agreement also contains a financial covenant that provides the leverage ratio, as defined in the credit agreement, of Sunoco Logistics shall not exceed 5.0 to 1, with a permitted increase to 5.5 to 1 during a specified acquisition period.

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As of June 30, 2013, there were no outstanding borrowings and no letters of credit issued under the 2016 credit facility.

2014 Credit Facility. Sunoco Marketing entered into the 2014 credit facility with Citibank, N.A., as administrative agent, Barclays Bank PLC, as syndication agent, TD Bank, N.A. and Wells Fargo Bank, N.A., as co-documentation agents, and certain other lenders on August 9, 2013. The 2014 credit facility provides for \$200 million of revolving credit capacity and matures on August 7, 2014. Sunoco Marketing's obligations under the 2014 credit facility are guaranteed by Sunoco Operations and Sunoco Logistics. Amounts borrowed under the 2014 credit facility bear interest at a rate based on either a LIBOR rate or a base rate, at Sunoco Marketing's option, plus an applicable rate. The applicable rate used in connection with the interest rates and facility fees, respectively, are based on the credit ratings assigned to Sunoco Operations' non-credit enhanced, senior unsecured long-term debt. The applicable rate for LIBOR rate loans ranges from 0.940% to 1.600% and the applicable rate for base rate loans ranges from 0% to 0.600%. The applicable rate for the facility fee payable on the unused portion of the 2014 credit facility ranges from 0.060% to 0.150%. Sunoco Marketing may prepay the indebtedness under the 2014 credit facility at any time at its option without premium or penalty.

The 2014 credit facility contains similar covenants as those contained in the 2016 credit facility described above.

Senior Notes. Sunoco Operations' obligations under its senior notes are guaranteed by Sunoco Logistics. The Sunoco Operations' senior notes represent Sunoco Operations' senior unsecured obligations and rank equally in right of payment with all of its existing and future unsecured and unsubordinated indebtedness, including debt under the 2016 credit facility and the 2013 credit facility. Sunoco Logistics' guarantee of the senior notes ranks equally in right of payment with its existing and future unsecured and unsubordinated indebtedness, including its guarantee of debt under the 2016 credit facility and the 2013 credit facility. Each series of Sunoco Operations' senior notes (other than the 3.45% Senior Notes due 2023 and the 4.95% Senior Notes due 2043) is redeemable, in whole or in part, at any time at Sunoco Operations' option, at a price equal to 100% of the principal amount of such senior notes plus a make-whole premium and accrued and unpaid interest, if any, to the redemption date. Each of the 3.45% Senior Notes due 2023 and the 4.95% Senior Notes due 2043 is redeemable, in whole or in part, (i) at a price equal to 100% of the principal amount of such senior notes plus a make-whole premium if the redemption occurs before the date that is six months prior to maturity or (ii) at par if the redemption occurs on or after the date that is six months prior to maturity, in each case plus accrued and unpaid interest, if any, to the redemption date. The senior notes were issued under an indenture containing covenants that limit, subject to certain exceptions, the ability of Sunoco Operations and its subsidiaries to create liens and engage in sale and leaseback transactions; and merger or consolidate with another entity or sell substantially all of their assets.

Unconsolidated Joint Ventures

Our unconsolidated joint ventures, FEP, Citrus and FGT, are parties to certain debt agreements as described below.

FEP

On July 28, 2011, FEP entered into a \$600 million term loan agreement that matures on July 28, 2013. FEP may extend the maturity date by one year upon written notice to the administrative agent and the payment of an extension fee that varies based on FEP's leverage ratio (as defined in the term loan agreement). Amounts borrowed under the term loan bear interest at a rate based on either a LIBOR rate or a base rate, at FEP's option, plus an applicable margin. As of June 30, 2013, the balance of the term loan was \$600 million with an effective interest rate of 1.83%.

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Citrus

Revolving Credit Facility. Citrus entered into a \$200 million revolving credit facility on June 29, 2012. Borrowings under the revolving credit facility bear interest at LIBOR or a base rate, at Citrus' option, plus an applicable margin based on FGT's long-term senior unsecured non-credit enhanced debt rating. The revolving credit facility has a swingline loan option under which the aggregate principal amount of outstanding swingline loans cannot exceed \$25 million and the outstanding principal amount of each lender's loans (including swingline loans) cannot exceed the total commitments under the facility. Citrus' obligations under the revolving credit facility are guaranteed by FGT. The revolving credit facility matures on November 2, 2015, subject to Citrus' right to extend the maturity date by one year (which right may not be exercised more than twice). As of June 30, 2013, there were \$144 million of borrowings outstanding under such facility with a weighted average interest rate of 1.59%.

Construction Term Loan. Citrus entered into a \$500 million construction term loan with Pipeline Funding Company, LLC on February 5, 2008 in order to finance the construction of certain expansion projects on FGT's pipelines. The term loan matures on October 8, 2029, and borrowings under the loan bear interest at the Treasury rate plus an applicable margin. As of June 30, 2013, the balance of the term loan was \$500 million, with an effective interest rate of 9.39%.

FGT

Revolving Credit Facility. FGT entered into a \$200 million credit agreement on June 29, 2012. Borrowings under the revolving credit facility bear interest at LIBOR or a base rate, at FGT's option, plus an applicable margin based on FGT's long-term senior unsecured non-credit enhanced debt rating. The revolving credit facility has a swingline loan option under which the aggregate principal amount of outstanding swingline loans cannot exceed \$25 million and the outstanding principal amount of each lender's loans (including swingline loans) cannot exceed the total commitments under the facility. Additionally, FGT may request letters of credit under the facility not exceeding \$50 million. The revolving credit facility matures on November 2, 2015, subject to FGT's right to extend the maturity date by one year (which right may not be exercised more than twice). As of June 30, 2013, there were no borrowings outstanding under the revolving credit facility.

Senior Notes. FGT has outstanding \$1.8 billion in aggregate principal amount of senior notes, consisting of the following:

\$350 million in principal amount of 4.00% Senior Notes due 2015;

\$600 million in principal amount of 7.90% Senior Notes due 2019;

\$500 million in principal amount of 5.45% Senior Notes due 2020;

\$300 million in principal amount of 3.875% Senior Notes due 2022; and

\$90 million in principal amount of 9.19% Senior Notes due 2024.

The senior notes are FGT's senior, unsecured general obligations, and the indentures under which such notes were issued contain customary terms, events of default and covenants.

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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 \$ with respect to the 20 notes, an aggregate principal amount of \$ with respect to the 20 notes and an aggregate principal amount of \$ with respect to the 20 notes;

will mature on , 20 , with respect to the 20 notes, , 20 with respect to the 20 notes and , 20 , with respect to the 20 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 % with respect to the 20 notes, an annual rate of %, with respect to the 20 notes and an annual rate of % with respect to the 20 notes; and

will be redeemable at any time at our option at the redemption prices described below under Optional Redemption. The 20 notes, 20 notes and 20 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 the following series of notes outstanding under the indenture (collectively, the existing senior notes):

\$292 million in principal amount of 8.500% Senior Notes due 2014;

\$750 million in principal amount of 5.950% Senior Notes due 2015;

\$400 million in principal amount of 6.125% Senior Notes due 2017;

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\$600 million in principal amount of 6.700% Senior Notes due 2018;

\$400 million in principal amount of 9.700% Senior Notes due 2019;

\$450 million in principal amount of 9.000% Senior Notes due 2019;

\$800 million in principal amount of 4.650% Senior Notes due 2021;

\$1 billion in principal amount of 5.200% Senior Notes due 2022;

\$800 million in principal amount of 3.600% Senior Notes due 2023;

\$277.5 million in principal amount of 7.600% Senior Notes due 2024;

\$266.7 million in principal amount of 8.250% Senior Notes due 2029;

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\$400 million in principal amount of 6.625% Senior Notes due 2036;

\$550 million in principal amount of 7.500% Senior Notes due 2038;

\$700 million in principal amount of 6.050% Senior Notes due 2041;

\$1 billion in principal amount of 6.500% Senior Notes due 2042; and

\$450 million in principal amount of 5.150% Senior Notes due 2043.

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 September , 2013 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 and of each year, beginning , 2014. We will make interest payments to the persons in whose names the notes are registered at the close of business on or , 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.

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 issue date, 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 , 20 , with respect to the 20 notes, 20 , with respect to the 20 notes and , 20 , with respect to the 20 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, but excluding, 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 basis points with respect to the 20 notes, basis points with respect to the 20 notes and basis points with respect to the 20 notes; plus, in either case, accrued and unpaid interest to, but excluding, the redemption date.

At any time on or after , 20 , with respect to the 20 notes, 20 , with respect to the 20 notes and , 20 , with respect to the 20 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 and unpaid interest thereon to, but excluding, the redemption date.

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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 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 J.P. Morgan Securities LLC (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 Credit Suisse Securities (USA) LLC and J.P. Morgan Securities LLC and their respective successors, and (b) 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.

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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.

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 structurally rank junior to all indebtedness and other liabilities of Energy Transfer's existing and future Subsidiaries that are not Subsidiary Guarantors.

As of June 30, 2013, after giving effect to (i) the repayment of \$350 million aggregate principal amount of our 6.000% Senior Notes, (ii) the repayment of \$250 million aggregate principal amount of the Panhandle 6.050% Senior Notes, (iii) the sale of the Missouri Gas Energy division by Southern Union and the use of the

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cash consideration therefrom as described in Capitalization and (iv) the offering of the notes and the application of the net proceeds therefrom as described in Use of Proceeds, Energy Transfer, excluding its Subsidiaries, would have had \$ billion of indebtedness, \$ billion of which would have been unsecured, unsubordinated indebtedness, consisting entirely of the notes, the existing senior notes, Sunoco's existing senior notes and debentures of which we are a co-obligor and the obligations under the Credit Agreement, and \$546 million of which would have been unsecured, subordinated indebtedness, consisting of the junior subordinated notes. Initially, none of Energy Transfer's Subsidiaries will guarantee the notes. Energy Transfer's Subsidiaries, Transwestern, Southern Union, Panhandle, Sunoco and Sunoco Logistics, have outstanding debt securities. As of June 30, 2013, after giving effect to (i) the repayment of \$350 million aggregate principal amount of our 6.000% Senior Notes, (ii) the repayment of \$250 million aggregate principal amount of the Panhandle 6.050% Senior Notes, (iii) the sale of the Missouri Gas Energy division by Southern Union and the use of the cash consideration therefrom as described in Capitalization and (iv) the offering of the notes and the application of the net proceeds therefrom as described in Use of Proceeds, the notes would have been structurally subordinated to \$5.1 billion of indebtedness of these Subsidiaries.

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.

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.

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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 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

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(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 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.

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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.

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**;

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- (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 (as defined in the indenture) 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;
- (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.

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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.

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

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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 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.

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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.

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).

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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.

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 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.

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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 Second Amended and Restated Credit Agreement, dated as of October 27, 2011, among Energy Transfer, Wells Fargo 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's, materialmen's, suppliers', carriers', landlords', warehousemen's 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;

(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;

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- (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.

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.

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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; and

(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.

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, but does not purport to be a complete analysis of all potential tax effects. 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, Internal Revenue Service (IRS) rulings and pronouncements, and judicial decisions, all as of the date hereof and all of which are subject to change at any time. Any such change may be applied retroactively in a manner that could adversely affect a holder of the notes. We cannot assure you that the IRS 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 IRS or an opinion of counsel with respect to the U.S. federal tax consequences of acquiring, holding or disposing of the notes.

This discussion is limited to persons purchasing the notes in this offering for cash at their issue price (the first price at which a substantial amount of the issue of notes is sold to purchasers other than bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents, or wholesalers) and holding the notes as capital assets within the meaning of Section 1221 of the Code (generally, property held for investment). Moreover, the effects of other U.S. federal tax laws (such as estate and gift tax laws or the Medicare tax on investment income) and any applicable state, local or foreign tax laws are not discussed. In addition, this discussion does not address all of the U.S. federal income tax considerations that may be relevant to a particular holder in light of the holder's particular circumstances, or to holders subject to special rules, including, without limitation:

dealers in securities or currencies;

traders in securities, commodities or currencies;

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 risk reduction transaction;

U.S. expatriates and certain former citizens or long-term residents of the United States;

banks, insurance companies and other financial institutions;

regulated investment companies and real estate investment trusts;

persons subject to the alternative minimum tax;

tax-exempt organizations;

controlled foreign corporations, passive foreign investment companies, and corporations that accumulate earnings to avoid U.S. federal income tax;

partnerships, S corporations or other pass-through entities; and

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persons deemed to sell the notes under the constructive sale provisions of the Code.

If a partnership or other entity taxed as a partnership for U.S. federal income tax purposes holds notes, the tax treatment of the partners in the partnership generally will depend on the status of the particular partner in question and the activities of the partnership. Such partners should consult their tax advisors as to the specific tax consequences to them of acquiring, holding and disposing of the notes.

Investors considering the purchase of notes should consult their 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.

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Consequences to U.S. Holders

The following is a summary of certain U.S. federal income tax considerations that will apply 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 other entity that is taxable as a corporation) created or organized in or under the laws of the United States, any state thereof, or the District of Columbia;

an estate the income of which is subject to U.S. federal income tax regardless of its source; or

a trust that (1) is subject to the primary supervision of a U.S. court and the control of one or more United States persons (within the meaning of Section 7701(a)(30) of the Code), or (2) has a valid election in effect under applicable Treasury Regulations to be treated as a United States person.

Payments of Interest

Stated interest paid or accrued on the notes generally will be taxable to you as ordinary income at the time such interest is received or accrued, in accordance with your regular method of accounting for U.S. federal income tax purposes.

Sale, Exchange or Disposition of Notes

You will recognize taxable gain or loss on the sale, exchange, redemption, retirement or other taxable disposition of a note equal to the difference, if any, between:

the amount realized upon the disposition of the note (less any amount attributable to accrued interest, which will be taxable as interest to the extent not already included in income); and

your adjusted tax basis in the notes.

Your adjusted tax basis in a note generally will equal the amount that you paid for the note. Any gain or loss will be capital gain or loss and will be long-term capital gain or loss if at the time of the sale or other taxable disposition you have held the note for more than one year. Otherwise, such gain or loss will be short-term capital gain or loss. Long-term capital gains recognized by certain non-corporate U.S. holders, including individuals, generally will be subject to a reduced rate of tax. The deductibility of capital losses is subject to limitations.

Information Reporting and Backup Withholding

You may be subject to information reporting on interest on the notes and on the proceeds received upon the sale or other disposition (including a retirement or redemption) of the notes, and backup withholding also may apply to payments of such amounts. Certain U.S. holders are generally not subject to information reporting or backup withholding. You will be subject to backup withholding if you are not otherwise exempt and you:

fail to furnish a taxpayer identification number (TIN), which, for an individual, is ordinarily his or her social security number;

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furnish an incorrect TIN;

are notified by the IRS that you have failed properly to report payments of interest or dividends; or

fail to certify under penalties of perjury, that you have furnished a correct TIN and that the IRS has not notified you that you are subject to backup withholding.

U.S. holders should consult their tax advisors regarding their qualification for an exemption from backup withholding and the procedures for obtaining such an exemption, if applicable. Backup withholding is not an additional tax, and you may use amounts withheld as a credit against your U.S. federal income tax liability, if any, or you may claim a refund if you timely provide certain information to the IRS.

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Consequences to Non-U.S. Holders

The following is a summary of certain U.S. federal income tax considerations that will apply to you if you are a non-U.S. holder of the notes. A non-U.S. holder is a beneficial owner of a note that is an individual, corporation, estate or trust that is not a U.S. holder.

Payments of Interest

Interest paid on a note to you that is not effectively connected with your conduct of a U.S. trade or business generally will not be subject to U.S. federal withholding tax of 30% (or, if applicable, a lower treaty rate) provided that:

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

you are not a controlled foreign corporation that is related to us through actual or constructive capital or profits interest ownership and you are not a bank that received such note on an extension of credit made pursuant to a loan agreement entered into in the ordinary course of your trade or business; and

either (1) you certify in a statement provided to the applicable withholding agent, under penalties of perjury, that you are not a United States person within the meaning of the Code and provide your name and address, (2) a securities clearing organization, bank or other financial institution that holds customers' securities in the ordinary course of its trade or business and holds the note on your behalf certifies to the applicable withholding agent under penalties of perjury that it, or the financial institution between it and you, has received from you a statement, under penalties of perjury, that you are not a United States person and you provide the applicable withholding agent with a copy of such statement, or (3) you hold your note directly through a qualified intermediary and certain conditions are satisfied.

Even if the above conditions are not met, you may be entitled to a reduction in or an exemption from withholding tax on interest if you provide the applicable withholding agent with a properly executed (1) IRS Form W-8BEN claiming an exemption from or reduction of the withholding tax under the benefit of a tax treaty between the United States and your country of residence, or (2) IRS Form W-8ECI stating that interest paid on a note is not subject to withholding tax because it is effectively connected with your conduct of a trade or business in the United States.

If interest paid to you is effectively connected with your conduct of a U.S. trade or business (and, if required by an applicable income tax treaty, you also maintain a U.S. permanent establishment to which such interest is attributable), then, although exempt from U.S. federal withholding tax (provided you provide the appropriate certification), you generally will be subject to U.S. federal income tax on such interest in the same manner as if you were a U.S. holder. In addition, if you are a foreign corporation, such interest may be subject to a branch profits tax at a rate of 30% or lower applicable treaty rate.

Sale, Exchange, or Disposition of the Notes

Any gain realized by you on the sale, exchange, retirement, redemption or other disposition of a note generally will not be subject to U.S. federal income tax (other than any amount allocable to accrued and unpaid interest, which generally will be taxable as interest and may be subject to the rules discussed above in *Consequences to Non-U.S. Holders* *Payments of Interest*) unless:

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

you are an individual who is present in the United States for 183 days or more in the taxable year of disposition and certain other requirements are met.

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If you recognize gain described in the first bullet point above, you will be required to pay U.S. federal income tax on the net gain derived from the sale generally in the same manner as if you were a U.S. holder, and if you are a foreign corporation, you may also be required to pay an additional branch profits tax at a 30% rate (or a lower rate if so specified by an applicable income tax treaty). If you are a non-U.S. holder described in the second bullet point above, you will be subject to U.S. federal income tax at a rate of 30% (or, if applicable, a lower treaty rate) on the gain derived from the sale or other disposition of the note, which may be offset by certain U.S. source capital losses, even though you are not considered a resident of the United States.

You should consult your tax advisor regarding potentially applicable income tax treaties that may provide for different rules.

Information Reporting and Backup Withholding

You generally will not be subject to backup withholding and information reporting with respect to payments of interest on the notes if you have provided the statement described above under **Consequences to Non-U.S. Holders Payments of Interest** and the applicable withholding agent does not have actual knowledge or reason to know that you are a United States person, within the meaning of the Code. In addition, you will not be subject to backup withholding or information reporting with respect to the proceeds of the sale or other disposition of a note (including a retirement or redemption of a note) within the United States or conducted through certain U.S.-related brokers, if the payor receives the statement described above and does not have actual knowledge or reason to know that you are a United States person or you otherwise establish an exemption. However, we may be required to report annually to the IRS and to you the amount of, and the tax withheld with respect to, any interest paid to you, regardless of whether any tax was actually withheld. Copies of these information returns may also be made available under the provisions of a specific treaty or agreement to the tax authorities of the country in which you reside.

You generally will be entitled to credit any amounts withheld under the backup withholding rules against your U.S. federal income tax liability, if any, or you may claim a refund provided that the required information is furnished to the IRS in a timely manner.

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 their 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.

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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 Credit Suisse Securities (USA) LLC and J.P. Morgan Securities LLC 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 20 Notes	Principal Amount of 20 Notes	Principal Amount of 20 Notes
Credit Suisse Securities (USA) LLC	\$	\$	\$
J.P. Morgan Securities LLC			
Citigroup Global Markets Inc.			
UBS Securities LLC			
Total	\$	\$	\$

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. We do not intend to apply for the listing of the notes on any securities exchange or for the quotation of the notes on any automated dealer quotation system. 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 markets for the notes.

Notes sold by the underwriters to the public will initially be offered at the public offering prices 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 % of the principal amount of the 20 notes, % of the principal amount of the 20 notes and % of the principal amount of the 20 notes. The underwriters may allow, and any such dealer may reallow, a concession not in excess of % of the principal amount of the 20 notes, % of the principal amount of the 20 notes and % of the principal amount of the 20 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:

	Per Note due 20	Total	Per Note due 20	Total	Per Note due 20	Total
Underwriting discount paid by us	%	\$	%	\$	%	\$

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 activities by the

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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.

We expect delivery of the notes will be made against payment therefor on or about _____, 2013, which will be the fifth business day following the date of pricing of the notes (such settlement being referred to as T+5). Under Rule 15c6-1 of the Securities Exchange Act of 1934, as amended, trades in the secondary market generally are required to settle in three business days unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade the notes on the date of pricing of the notes or the next succeeding business day will be required, by virtue of the fact that the notes initially will settle in T+5, to specify an alternate settlement cycle at the time of any such trade to prevent failed settlement and should consult their own advisers.

Other Relationships

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. Some of the underwriters and their affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with us or our affiliates. They have received, or may in the future receive, customary fees and commissions for these transactions. In particular, affiliates of J.P. Morgan Securities LLC and UBS Securities LLC are lenders under Trunkline LNG's term loan and affiliates of each of the underwriters, except for Citigroup Global Markets Inc., are lenders and agents under our revolving credit facility. These affiliates will receive their respective share of the repayment by us of amounts outstanding under Trunkline LNG's term loan and our revolving credit facility with the net proceeds of this offering.

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 ours or our affiliates. If any of the underwriters or their affiliates has a lending relationship with us, certain of those underwriters or their affiliates routinely hedge, and certain other of those underwriters or their affiliates may hedge, their credit exposure to us consistent with their customary risk management policies. Typically, such underwriters and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in our securities, including potentially the notes offered hereby. Any such credit default swaps or short positions could adversely affect future trading prices of the notes offered hereby. 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 consolidated financial statements and management's assessment of the effectiveness of internal control over financial reporting of Energy Transfer Partners, L.P. appearing in Energy Transfer Partners, L.P.'s Annual Report on Form 10-K for the year ended December 31, 2012 and 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 accounting and auditing 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, 2012;

our quarterly reports on Form 10-Q for the quarters ended March 31, 2013 and June 30, 2013;

our current reports on Form 8-K filed January 14, 2013, January 16, 2013, January 22, 2013, January 23, 2013, February 28, 2013, March 11, 2013, March 26, 2013, April 4, 2013, April 10, 2013, April 17, 2013 (which was amended by Form 8-K/A on April 18, 2013), May 1, 2013, May 9, 2013, May 22, 2013, June 6, 2013, June 24, 2013, June 26, 2013, July 18, 2013, August 8, 2013, August 12, 2013, August 15, 2013, August 30, 2013 and September 3, 2013 (excluding any information furnished pursuant to Item 2.02 or Item 7.01 of any such current reports on Form 8-K or 8-K/A); and

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

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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, 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 our 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, believe, 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;

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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;

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;

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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;

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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

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;

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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;

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

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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.

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 $66\frac{2}{3}\%$ 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.

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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.

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.

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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 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.

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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.

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

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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 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.

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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 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.

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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

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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.

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

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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

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;

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

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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 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.

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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.

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.

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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.

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

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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.

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.

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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.

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

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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 NOx 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 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.

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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, 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,

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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 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.

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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 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.

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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, 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

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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.

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.

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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.

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.

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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 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

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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 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.

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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.

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

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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 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

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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		Four Months	Year	Year	Nine Months	
	August 31,		Ended	Ended	Ended	Ended	
			December 31,	December 31,	December 31,	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 66²/₃% 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

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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;

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.

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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.

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.

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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;

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 holder's 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.

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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 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

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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 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.

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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

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

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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;

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](#));

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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.

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.

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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:

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

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.

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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;

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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;

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

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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.

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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.

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

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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.

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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 under the indenture only if:

the holder gives the trustee written notice of a continuing event of default for that series;

the holders of at least 25% in principal amount of the outstanding debt securities of that series make a written request to the trustee to pursue the remedy;

the holders offer to the trustee security or indemnity satisfactory to the trustee;

the trustee fails to act for a period of 60 days after receipt of the request and offer of security or indemnity; and

during that 60-day period, the holders of a majority in principal amount of the debt securities of that series do not give the trustee a direction inconsistent with the request.

This provision does not, however, affect the right of a holder of a debt security to sue for enforcement of any overdue payment.

In most cases, holders of a majority in principal amount of the outstanding debt securities of a series (or of all debt securities issued under the indenture that are affected, voting as one class) may direct the time, method and place of:

conducting any proceeding for any remedy available to the trustee; and

exercising any trust or power conferred upon the trustee relating to or arising as a result of an event of default.

Under the indenture we are required to file each year with the trustee a written statement as to our compliance with the covenants contained in the indenture.

Modification and Waiver. The indenture may be amended or supplemented if the holders of a majority in principal amount of the outstanding debt securities of all series issued under the indenture that are affected by the amendment or supplement (acting as one class) consent to it. Without the consent of the holder of each debt security affected, however, no modification may:

reduce the percentage in principal amount of debt securities whose holders must consent to an amendment, a supplement or a waiver;

reduce the rate of or extend the time for payment of interest on the debt security;

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reduce the principal of, or any premium on, the debt security or change its stated maturity;

reduce any premium payable on the redemption of the debt security or change the time at which the debt security may or must be redeemed;

change any obligation to pay additional amounts on the debt security;

make payments on the debt security payable in currency other than as originally stated in the debt security;

impair the holder's right to receive payment of principal of and premium, if any, and interest on or any additional amounts with respect to such holder's debt securities or to institute suit for the enforcement of any payment on or with respect to the debt security;

make any change in the percentage of principal amount of debt securities necessary to waive compliance with certain provisions of the indenture or to make any change in the provision related to modification;

waive a continuing default or event of default regarding any payment on the debt securities;

except as provided in the indenture, release any security that may have been granted in respect of any debt securities; or

except as provided in the indenture, release, or modify the guarantee any Subsidiary Guarantor in any manner adverse to the holders.

The indenture may be amended or supplemented or any provision of the indenture may be waived without the consent of any holders of debt securities issued under the indenture:

to cure any ambiguity, omission, defect or inconsistency;

to provide for the assumption of our obligations under the indenture by a successor upon any merger, consolidation or asset transfer permitted under the indenture;

to provide for uncertificated debt securities in addition to or in place of certificated debt securities or to provide for bearer debt securities;

to provide any security for, any guarantees of or any additional obligors on any series of debt securities or the related guarantees;

to comply with any requirement to effect or maintain the qualification of the indenture under the Trust Indenture Act;

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to add covenants that would benefit the holders of any debt securities or to surrender any rights we have under the indenture;

to add events of default with respect to any debt securities; and

to make any change that does not adversely affect any outstanding debt securities of any series issued under the indenture. The holders of a majority in principal amount of the outstanding debt securities of any series (or, in some cases, of all debt securities issued under the indenture that are affected, voting as one class) may waive any

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existing or past default or event of default with respect to those debt securities. Those holders may not, however, waive any default or event of default in any payment on any debt security or compliance with a provision that cannot be amended or supplemented without the consent of each holder affected.

Defeasance. When we use the term defeasance, we mean discharge from some or all of our obligations under the indenture. If any combination of funds or government securities are deposited with the trustee under the indenture sufficient to make payments on the debt securities of a series issued under the indenture on the dates those payments are due and payable, then, at our option, either of the following will occur:

we will be discharged from our or their obligations with respect to the debt securities of that series and, if applicable, the related guarantees (legal defeasance); or

we will no longer have any obligation to comply with the restrictive covenants, the merger covenant and other specified covenants under the indenture, and the related events of default will no longer apply (covenant defeasance).

If a series of debt securities is defeased, the holders of the debt securities of the series affected will not be entitled to the benefits of the indenture, except for obligations to register the transfer or exchange of debt securities, replace stolen, lost or mutilated debt securities or maintain paying agencies and hold moneys for payment in trust. In the case of covenant defeasance, our obligation to pay principal, premium and interest on the debt securities and, if applicable, guarantees of the payments will also survive.

Unless we inform you otherwise in the prospectus supplement, we will be required to deliver to the trustee an opinion of counsel that the deposit and related defeasance would not cause the holders of the debt securities to recognize income, gain or loss for U.S. federal income tax purposes. If we elect legal defeasance, that opinion of counsel must be based upon a ruling from the U.S. Internal Revenue Service or a change in law to that effect.

No Personal Liability of General Partner. Our general partner, and its directors, officers, employees, incorporators and partners, in such capacity, will not be liable for the obligations of Energy Transfer Partners, L.P. or any Subsidiary Guarantor under the debt securities, the indenture or the guarantees or for any claim based on, in respect of, or by reason of, such obligations or their creation. By accepting a debt security, each holder of that debt security will have agreed to this provision and waived and released any such liability on the part of our general partner and its directors, officers, employees, incorporators and partners. This waiver and release are part of the consideration for our issuance of the debt securities. It is the view of the SEC that a waiver of liabilities under the federal securities laws is against public policy and unenforceable.

Governing Law. New York law governs the indenture and will govern the debt securities.

Trustee. We may appoint a separate trustee for any series of debt securities. We use the term trustee to refer to the trustee appointed with respect to any such series of debt securities. We may maintain banking and other commercial relationships with the trustee and its affiliates in the ordinary course of business, and the trustee may own debt securities.

Form, Exchange, Registration and Transfer. The debt securities will be issued in registered form, without interest coupons. There will be no service charge for any registration of transfer or exchange of the debt securities. However, payment of any transfer tax or similar governmental charge payable for that registration may be required.

Debt securities of any series will be exchangeable for other debt securities of the same series, the same total principal amount and the same terms but in different authorized denominations in accordance with the indenture. Holders may present debt securities for registration of transfer at the office of the security registrar or any transfer agent we designate. The security registrar or transfer agent will effect the transfer or exchange if its requirements and the requirements of the indenture are met.

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The trustee will be appointed as security registrar for the debt securities. If a prospectus supplement refers to any transfer agents we initially designate, we may at any time rescind that designation or approve a change in the location through which any transfer agent acts. We are required to maintain an office or agency for transfers and exchanges in each place of payment. We may at any time designate additional transfer agents for any series of debt securities.

In the case of any redemption, we will not be required to register the transfer or exchange of:

any debt security during a period beginning 15 business days prior to the mailing of the relevant notice of redemption and ending on the close of business on the day of mailing of such notice; or

any debt security that has been called for redemption in whole or in part, except the unredeemed portion of any debt security being redeemed in part.

Payment and Paying Agents. Unless we inform you otherwise in a prospectus supplement, payments on the debt securities will be made in U.S. dollars at the office of the trustee and any paying agent. At our option, however, payments may be made by wire transfer for global debt securities or by check mailed to the address of the person entitled to the payment as it appears in the security register. Unless we inform you otherwise in a prospectus supplement, interest payments may be made to the person in whose name the debt security is registered at the close of business on the record date for the interest payment.

Unless we inform you otherwise in a prospectus supplement, the trustee under the indenture will be designated as the paying agent for payments on debt securities issued under the indenture. We may at any time designate additional paying agents or rescind the designation of any paying agent or approve a change in the office through which any paying agent acts.

If the principal of or any premium or interest on debt securities of a series is payable on a day that is not a business day, the payment will be made on the following business day. For these purposes, unless we inform you otherwise in a prospectus supplement, a business day is any day that is not a Saturday, a Sunday or a day on which banking institutions in New York, New York or a place of payment on the debt securities of that series is authorized or obligated by law, regulation or executive order to remain closed.

Subject to the requirements of any applicable abandoned property laws, the trustee and paying agent will pay to us upon written request any money held by them for payments on the debt securities that remains unclaimed for two years after the date upon which that payment has become due. After payment to us, holders entitled to the money must look to us for payment. In that case, all liability of the trustee or paying agent with respect to that money will cease.

Book-Entry Debt Securities. The debt securities of a series may be issued in the form of one or more global debt securities that would be deposited with a depository or its nominee identified in the prospectus supplement. Global debt securities may be issued in either temporary or permanent form. We will describe in the prospectus supplement the terms of any depository arrangement and the rights and limitations of owners of beneficial interests in any global debt security.

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MATERIAL FEDERAL INCOME TAX CONSIDERATIONS

This section is a summary of the material tax considerations that may be relevant to prospective unitholders who are individual citizens or residents of the United States and, unless otherwise noted in the following discussion, is the opinion of Latham & Watkins LLP, counsel to our general partner and us, insofar as it relates to legal conclusions with respect to matters of U.S. federal income tax law. This section is based upon current provisions of the Internal Revenue Code of 1986, as amended (the Internal Revenue Code), existing and proposed Treasury regulations promulgated under the Internal Revenue Code (the Treasury Regulations) and current administrative rulings and court decisions, all of which are subject to change. Later changes in these authorities may cause the tax consequences to vary substantially from the consequences described below. Unless the context otherwise requires, references in this section to us or we are references to Energy Transfer Partners, L.P. and our operating subsidiaries.

The following discussion does not comment on all federal income tax matters affecting us or our unitholders. Moreover, the discussion focuses on unitholders who are individual citizens or residents of the United States and has only limited application to corporations, estates, trusts, nonresident aliens or other unitholders subject to specialized tax treatment, such as tax-exempt institutions, foreign persons, individual retirement accounts (IRAs), real estate investment trusts (REITs) or mutual funds. In addition, the discussion only comments to a limited extent on state, local and foreign tax consequences. Accordingly, we encourage each prospective unitholder to consult, and depend on, his own tax advisor in analyzing the federal, state, local and foreign tax consequences particular to him of the ownership or disposition of common units.

No ruling has been or will be requested from the IRS regarding our characterization as a partnership for tax purposes. Instead, we will rely on opinions of Latham & Watkins LLP. Unlike a ruling, an opinion of counsel represents only that counsel's best legal judgment and does not bind the IRS or the courts. Accordingly, the opinions and statements made herein may not be sustained by a court if contested by the IRS. Any contest of this sort with the IRS may materially and adversely impact the market for the common units and the prices at which common units trade. In addition, the costs of any contest with the IRS, principally legal, accounting and related fees, will result in a reduction in cash available for distribution to our unitholders and our general partner and thus will be borne indirectly by our unitholders and our general partner. Furthermore, the tax treatment of us, or of an investment in us, may be significantly modified by future legislative or administrative changes or court decisions. Any modifications may or may not be retroactively applied.

All statements as to matters of federal income tax law and legal conclusions with respect thereto, but not as to factual matters, contained in this section, unless otherwise noted, are the opinion of Latham & Watkins LLP and are based on the accuracy of the representations made by us.

For the reasons described below, Latham & Watkins LLP has not rendered an opinion with respect to the following specific federal income tax issues: (1) the treatment of a unitholder whose common units are loaned to a short seller to cover a short sale of common units (please read Tax Consequences of Unit Ownership Treatment of Short Sales); (2) whether our monthly convention for allocating taxable income and losses is permitted by existing Treasury Regulations (please read Disposition of Common Units Allocations Between Transferors and Transferees); and (3) whether our method for depreciating Section 743 adjustments is sustainable in certain cases (please read Tax Consequences of Unit Ownership Section 754 Election and Uniformity of Units).

Partnership Status

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

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Section 7704 of the Internal Revenue Code provides that publicly traded partnerships will, as a general rule, be taxed as corporations. However, an exception, referred to as the Qualifying Income Exception, exists with respect to publicly traded partnerships of which 90% or more of the gross income for every taxable year consists of qualifying income. Qualifying income includes income and gains derived from the transportation, storage, processing and marketing of crude oil, natural gas and products thereof, including the retail and wholesale marketing of propane, certain hedging activities and the transportation of propane and natural gas liquids. Other types of qualifying income include interest (other than from a financial business), dividends, gains from the sale of real property and gains from the sale or other disposition of capital assets held for the production of income that otherwise constitutes qualifying income. We estimate that less than 6% of our current gross income is not qualifying income; however, this estimate could change from time to time. Based upon and subject to this estimate, the factual representations made by us and our general partner and a review of the applicable legal authorities, Latham & Watkins LLP is of the opinion that at least 90% of our current gross income constitutes qualifying income. The portion of our income that is qualifying income may change from time to time.

No ruling has been or will be sought from the IRS and the IRS has made no determination as to our status or the status of our operating subsidiaries for federal income tax purposes. Instead, we will rely on the opinion of Latham & Watkins LLP on such matters. It is the opinion of Latham & Watkins LLP that, based upon the Internal Revenue Code, its Treasury Regulations, published revenue rulings and court decisions and the representations described below, we will be classified as a partnership and each of our operating subsidiaries will, except as otherwise provided, be disregarded as an entity separate from us or will be treated as a partnership for federal income tax purposes. In rendering its opinion, Latham & Watkins LLP has relied on factual representations made by us and our general partner. The representations made by us and our general partner upon which Latham & Watkins LLP has relied include:

- (a) Except for Heritage Holdings, Inc., Energy Transfer del Peru S.R.L., Heritage LP, Inc., Heritage Service Corp., M-P Oils Ltd., Oasis Partner Company, Oasis Pipe Line Company, Oasis Pipe Line Finance Company, Oasis Pipe Line Management Company and Titan Propane Services, Inc., neither we nor any of our operating entities are taxed as corporations or have elected or will elect to be treated as a corporation;
- (b) For each taxable year, more than 90% of our gross income has been and will be income of the type that Latham & Watkins LLP has opined or will opine is qualifying income within the meaning of Section 7704(d) of the Internal Revenue Code; and
- (c) Each hedging transaction that we treat as resulting in qualifying income has been and will be appropriately identified as a hedging transaction pursuant to applicable Treasury Regulations, and has been and will be associated with oil, gas, or products thereof that are held or to be held by us in activities of the type that Latham & Watkins LLP has opined or will opine result in qualifying income.

We believe that these representations have been true in the past and expect that these representations will be true in the future.

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

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If we were treated as an association taxable as a corporation in any taxable year, either as a result of a failure to meet the Qualifying Income Exception or otherwise, our items of income, gain, loss and deduction would be reflected only on our tax return rather than being passed through to our unitholders, and our net income would be taxed to us at corporate rates. In addition, any distribution made to a unitholder would be treated as either taxable dividend income, to the extent of our current and accumulated earnings and profits, or, in the absence of earnings and profits, a nontaxable return of capital, to the extent of the unitholder's tax basis in his common units, or taxable capital gain, after the unitholder's tax basis in his common units is reduced to zero. Accordingly, taxation as a corporation would result in a material reduction in a unitholder's cash flow and after-tax return and thus would likely result in a substantial reduction of the value of the units. The discussion below is based on Latham & Watkins LLP's opinion that we will be classified as a partnership for federal income tax purposes.

Limited Partner Status

Unitholders who have become limited partners of Energy Transfer Partners, L.P. will be treated as partners of Energy Transfer Partners, L.P. for federal income tax purposes. Also:

(a) assignees who have executed and delivered transfer applications, and are awaiting admission as limited partners, and

(b) unitholders whose common units are held in street name or by a nominee and who have the right to direct the nominee in the exercise of all substantive rights attendant to the ownership of their common units

will be treated as partners of Energy Transfer Partners, L.P. for federal income tax purposes. As there is no direct or indirect controlling authority addressing assignees of common units who are entitled to execute and deliver transfer applications and thereby become entitled to direct the exercise of attendant rights, but who fail to execute and deliver transfer applications, Latham & Watkins LLP's opinion does not extend to these persons. Furthermore, a purchaser or other transferee of common units who does not execute and deliver a transfer application may not receive some federal income tax information or reports furnished to record holders of common units unless the common units are held in a nominee or street name account and the nominee or broker has executed and delivered a transfer application for those common units. A beneficial owner of common units whose units have been transferred to a short seller to complete a short sale would appear to lose his status as a partner with respect to those units for federal income tax purposes. Please read "Tax Consequences of Unit Ownership" Treatment of Short Sales. Income, gain, deductions or losses would not appear to be reportable by a unitholder who is not a partner for federal income tax purposes, and any cash distributions received by a unitholder who is not a partner for federal income tax purposes would therefore appear to be fully taxable as ordinary income. These holders are urged to consult their own tax advisors with respect to their tax consequences of holding common units in Energy Transfer Partners, L.P. The references to unitholders in the discussion that follows are to persons who are treated as partners in Energy Transfer Partners, L.P., for federal income tax purposes.

Tax Consequences of Unit Ownership

Flow-Through of Taxable Income. Subject to the discussion below under "Entity-Level Collections," we will not pay any federal income tax. Instead, each unitholder will be required to report on his income tax return his share of our income, gains, losses and deductions without regard to whether we make cash distributions to him. Consequently, we may allocate income to a unitholder even if he has not received a cash distribution. Each unitholder will be required to include in income his allocable share of our income, gains, losses and deductions for our taxable year ending with or within his taxable year. Our taxable year ends on December 31.

Treatment of Distributions. Distributions by us to a unitholder generally will not be taxable to the unitholder for federal income tax purposes, except to the extent the amount of any such cash distribution exceeds his tax basis in his common units immediately before the distribution. Our cash distributions in excess of a

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unitholder's tax basis generally will be considered to be gain from the sale or exchange of the common units, taxable in accordance with the rules described under *Disposition of Common Units* below. Any reduction in a unitholder's share of our liabilities for which no partner, including the general partner, bears the economic risk of loss, known as nonrecourse liabilities, will be treated as a distribution of cash to that unitholder. To the extent our distributions cause a unitholder's at-risk amount to be less than zero at the end of any taxable year, he must recapture any losses deducted in previous years. Please read *Limitations on Deductibility of Losses*.

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

Basis of Common Units. A unitholder's initial tax basis for his common units will be the amount he paid for the common units plus his share of our nonrecourse liabilities. That basis will be increased by his share of our income and by any increases in his share of our nonrecourse liabilities. That basis will be decreased, but not below zero, by distributions from us, by the unitholder's share of our losses, by any decreases in his share of our nonrecourse liabilities and by his share of our expenditures that are not deductible in computing taxable income and are not required to be capitalized. A unitholder will have no share of our debt that is recourse to our general partner, but will have a share, generally based on his share of profits, of our nonrecourse liabilities. Please read *Disposition of Common Units* *Recognition of Gain or Loss*.

Limitations on Deductibility of Losses. The deduction by a unitholder of his share of our losses will be limited to the tax basis in his units and, in the case of an individual unitholder estate, trust, or a corporate unitholder (if more than 50% of the value of the corporate unitholder's stock is owned directly or indirectly by or for five or fewer individuals or some tax-exempt organizations) to the amount for which the unitholder is considered to be at-risk with respect to our activities, if that is less than his tax basis. A common unitholder subject to these limitations must recapture losses deducted in previous years to the extent that distributions cause his at-risk amount to be less than zero at the end of any taxable year. Losses disallowed to a unitholder or recaptured as a result of these limitations will carry forward and will be allowable as a deduction to the extent that his at-risk amount is subsequently increased, provided such losses do not exceed such common unitholder's tax basis in his common units. Upon the taxable disposition of a unit, any gain recognized by a unitholder can be offset by losses that were previously suspended by the at-risk limitation but may not be offset by losses suspended by the basis limitation. Any loss previously suspended by the at-risk limitation in excess of that gain would no longer be utilizable. In general, a unitholder will be at risk to the extent of the tax basis of his units, excluding any portion of that basis attributable to his share of our nonrecourse liabilities, reduced by (i) any portion of that basis representing amounts otherwise protected against loss because of a guarantee, stop loss agreement or other similar arrangement and (ii) any amount of money he borrows to acquire or hold his units, if the lender of those borrowed funds owns an interest in us, is related to the unitholder or can look only to the units for repayment. A unitholder's at-risk amount will increase or decrease as the tax basis of the unitholder's units increases or decreases, other than tax basis increases or decreases attributable to increases or decreases in his share of our nonrecourse liabilities.

In addition to the basis and at-risk limitations on the deductibility of losses, the passive loss limitations generally provide that individuals, estates, trusts and some closely-held corporations and personal service corporations can deduct losses from passive activities, which are generally trade or business activities in which the taxpayer does not materially participate, only to the extent of the taxpayer's income from those passive activities. The passive loss limitations are applied separately with respect to each publicly traded partnership.

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Consequently, any passive losses we generate will only be available to offset our passive income generated in the future and will not be available to offset income from other passive activities or investments, including our investments or a unitholder's investments in other publicly traded partnerships, or salary or active business income. Passive losses that are not deductible because they exceed a unitholder's share of income we generate may be deducted in full when he disposes of his entire investment in us in a fully taxable transaction with an unrelated party. The passive loss limitations are applied after other applicable limitations on deductions, including the at risk rules and the basis limitation.

A unitholder's share of our net income may be offset by any of our suspended passive losses, but it may not be offset by any other current or carryover losses from other passive activities, including those attributable to other publicly traded partnerships.

Limitations on Interest Deductions. The deductibility of a non-corporate taxpayer's investment interest expense is generally limited to the amount of that taxpayer's net investment income. Investment interest expense includes:

interest on indebtedness properly allocable to property held for investment;

our interest expense attributed to portfolio income; and

the portion of interest expense incurred to purchase or carry an interest in a passive activity to the extent attributable to portfolio income.

The computation of a unitholder's investment interest expense will take into account interest on any margin account borrowing or other loan incurred to purchase or carry a unit. Net investment income includes gross income from property held for investment and amounts treated as portfolio income under the passive loss rules, less deductible expenses, other than interest, directly connected with the production of investment income, but generally does not include gains attributable to the disposition of property held for investment or (if applicable) qualified dividend income. The IRS has indicated that the net passive income earned by a publicly traded partnership will be treated as investment income to its unitholders. In addition, the unitholder's share of our portfolio income will be treated as investment income.

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

Allocation of Income, Gain, Loss and Deduction. In general, if we have a net profit, our items of income, gain, loss and deduction will be allocated among our general partner and the unitholders in accordance with their percentage interests in us. At any time that distributions are made to the common units or incentive distributions are made to our general partner, gross income will be allocated to the recipients to the extent of these distributions. If we have a net loss, that loss will be allocated first to our general partner and the unitholders in accordance with their percentage interests in us to the extent of their positive capital accounts and, second, to our general partner. Specified items of our income, gain, loss and deduction will be allocated to account for the difference between the tax basis and fair market value of our assets at the time of the offering, referred to in this discussion as Contributed Property. The effect of these allocations, referred to as Section 704(c) Allocations, to a unitholder purchasing common units from us in an offering will be essentially the same as if the tax bases of our assets were equal to their fair market value at the time of this offering. In the event we issue additional

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common units or engage in certain other transactions in the future reverse Section 704(c) Allocations, similar to the Section 704(c) Allocations described above, will be made to all holders of partnership interests immediately prior to, or in conjunction with, such other transactions to account for the difference between the book basis for purposes of maintaining capital accounts and the fair market value of all property held by us at the time of such issuance or future transaction. In addition, items of recapture income will be allocated to the extent possible to the unitholder who was allocated the deduction giving rise to the treatment of that gain as recapture income in order to minimize the recognition of ordinary income by some unitholders. Finally, although we do not expect that our operations will result in the creation of negative capital accounts, if negative capital accounts nevertheless result, items of our income and gain will be allocated in an amount and manner to eliminate the negative balance as quickly as possible. An allocation of items of our income, gain, loss or deduction, other than an allocation required by the Internal Revenue Code to eliminate the difference between a partner's book capital account, credited with the fair market value of Contributed Property, and tax capital account, credited with the tax basis of Contributed Property, referred to in this discussion as the Book-Tax Disparity, will generally be given effect for federal income tax purposes in determining a partner's share of an item of income, gain, loss or deduction only if the allocation has substantial economic effect. In any other case, a partner's share of an item will be determined on the basis of his interest in us, which will be determined by taking into account all the facts and circumstances, including:

his relative contributions to us;

the interests of all the partners in profits and losses;

the interest of all the partners in cash flow; and

the rights of all the partners to distributions of capital upon liquidation.

Latham & Watkins LLP is of the opinion that, with the exception of the issues described in Section 754 Election and Disposition of Common Units Allocations Between Transferors and Transferees, allocations under our partnership agreement will be given effect for federal income tax purposes in determining a partner's share of an item of income, gain, loss or deduction.

Treatment of Short Sales. 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, he 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. As a result, during this period:

any of our income, gain, loss or deduction with respect to those units would not be reportable by the unitholder;

any cash distributions received by the unitholder as to those units would be fully taxable; and

all of these distributions would appear to be ordinary income.

Because there is no direct or indirect controlling authority on the issue relating to partnership interests, Latham & Watkins LLP has not rendered an opinion regarding the tax treatment of a unitholder whose common units are loaned to a short seller to cover a short sale of common units; therefore, 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 loaning their units. The IRS has previously announced that it is studying issues relating to the tax treatment of short sales of partnership interests. Please also read Disposition of Common Units Recognition of Gain or Loss.

Alternative Minimum Tax. Each unitholder will be required to take into account his distributive share of any items of our income, gain, loss or deduction for purposes of the alternative minimum tax. The current minimum tax rate for noncorporate taxpayers is 26% on the first \$175,000 of alternative minimum taxable

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income in excess of the exemption amount and 28% on any additional alternative minimum taxable income. Prospective unitholders are urged to consult with their tax advisors as to the impact of an investment in units on their liability for the alternative minimum tax.

Tax Rates. Under current law, the highest marginal U.S. federal income tax rate applicable to ordinary income of individuals is 35% and the highest marginal U.S. federal income tax rate applicable to long-term capital gains (generally, capital gains on certain assets held for more than 12 months) of individuals is 15%. These rates are subject to change by new legislation at any time or as a result of sunset provisions.

The recently-enacted Patient Protection and Affordable Care Act of 2010, as amended by the Health Care and Education Reconciliation Act of 2010, is scheduled to impose a 3.8% Medicare tax on certain net investment income earned by individuals, estates and trusts for taxable years beginning after December 31, 2012. For these purposes, net investment income generally includes a unitholder's allocable share of our income and gain recognized by a unitholder from a sale of units. In the case of an individual, the tax will be imposed on the lesser of (i) the unitholder's net investment income or (ii) the amount by which the unitholder's modified adjusted gross income exceeds \$250,000 (if the unitholder is married and filing jointly or a surviving spouse), \$125,000 (if the unitholder is married and filing separately) or \$200,000 (in any other case). In the case of an estate or trust, the tax will be imposed on the lesser of (i) undistributed net investment income or (ii) the excess adjusted gross income over the dollar amount at which the highest income tax bracket applicable to an estate or trust begins.

Section 754 Election. We have made the election permitted by Section 754 of the Internal Revenue Code. That election is irrevocable without the consent of the IRS unless there is a constructive termination of the partnership. Please read **Disposition of Common Units** **Constructive Termination.** The election will generally permit us to adjust a common unit purchaser's tax basis in our assets (**inside basis**) under Section 743(b) of the Internal Revenue Code to reflect his purchase price. This election does not apply to a person who purchases common units directly from us. The Section 743(b) adjustment belongs to the purchaser and not to other unitholders. For purposes of this discussion, the inside basis in our assets with respect to a unitholder will be considered to have two components: (1) his share of our tax basis in our assets (**common basis**) and (2) his Section 743(b) adjustment to that basis.

Where the remedial allocation method is adopted (which we have historically adopted as to all property other than certain goodwill properties and which we will generally adopt as to all properties going forward), the Treasury Regulations under Section 743 of the Internal Revenue Code require a portion of the Section 743(b) adjustment that is attributable to recovery property under Section 168 of the Internal Revenue Code whose book basis is in excess of its tax basis to be depreciated over the remaining cost recovery period for the property's unamortized Book-Tax Disparity. Under Treasury Regulation Section 1.167(c)-1(a)(6), a Section 743(b) adjustment attributable to property subject to depreciation under Section 167 of the Internal Revenue Code, rather than cost recovery deductions under Section 168, is generally required to be depreciated using either the straightline method or the 150% declining balance method. If we elect a method other than the remedial method, the depreciation and amortization methods and useful lives associated with the Section 743(b) adjustment, therefore, may differ from the methods and useful lives generally used to depreciate the inside basis in such properties. Under our partnership agreement, our general partner is authorized to take a position to preserve the uniformity of units even if that position is not consistent with these and any other Treasury Regulations. If we elect a method other than the remedial method with respect to a goodwill property, the common basis of such property is not amortizable. Please read **Uniformity of Units.**

Although Latham & Watkins LLP is unable to opine as to the validity of this approach because there is no direct or indirect controlling authority on this issue, we intend to depreciate the portion of a Section 743(b) adjustment attributable to unrealized appreciation in the value of Contributed Property, to the extent of any unamortized Book-Tax Disparity, using a rate of depreciation or amortization derived from the depreciation or amortization method and useful life applied to the property's unamortized Book-Tax Disparity, or treat that portion as non-amortizable to the extent attributable to property which is not amortizable. This method is consistent with the methods employed by other publicly traded partnerships but is arguably inconsistent with Treasury Regulation Section 1.167(c)-1(a)(6), which is not expected to directly apply to a material portion of our

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assets, and Treasury Regulation Section 1.197-2(g)(3). To the extent this Section 743(b) adjustment is attributable to appreciation in value in excess of the unamortized Book-Tax Disparity, we will apply the rules described in the Treasury Regulations and legislative history. If we determine that this position cannot reasonably be taken, we may take a depreciation or amortization position under which all purchasers acquiring units in the same month would receive depreciation or amortization, whether attributable to common basis or a Section 743(b) adjustment, based upon the same applicable rate as if they had purchased a direct interest in our assets. This kind of aggregate approach may result in lower annual depreciation or amortization deductions than would otherwise be allowable to some unitholders. Please read [Uniformity of Units](#). A unitholder's tax basis for his common units is reduced by his share of our deductions (whether or not such deductions were claimed on an individual's income tax return) so that any position we take that understates deductions will overstate the common unitholder's basis in his common units, which may cause the unitholder to understate gain or overstate loss on any sale of such units. Please read [Disposition of Common Units Recognition of Gain or Loss](#). The IRS may challenge our position with respect to depreciating or amortizing the Section 743(b) adjustment we take to preserve the uniformity of the units. If such a challenge were sustained, the gain from the sale of units might be increased without the benefit of additional deductions.

A Section 754 election is advantageous if the transferee's tax basis in his units is higher than the units' share of the aggregate tax basis of our assets immediately prior to the transfer. In that case, as a result of the election, the transferee would have, among other items, a greater amount of depreciation deductions and his share of any gain or loss on a sale of our assets would be less. Conversely, a Section 754 election is disadvantageous if the transferee's tax basis in his units is lower than those units' share of the aggregate tax basis of our assets immediately prior to the transfer. Thus, the fair market value of the units may be affected either favorably or unfavorably by the election. A basis adjustment is required regardless of whether a Section 754 election is made in the case of a transfer of an interest in us if we have a substantial built-in loss immediately after the transfer, or if we distribute property and have a substantial basis reduction. Generally a built-in loss or a basis reduction is substantial if it exceeds \$250,000.

The calculations involved in the Section 754 election are complex and will be made on the basis of assumptions as to the value of our assets and other matters. For example, the allocation of the Section 743(b) adjustment among our assets must be made in accordance with the Internal Revenue Code. The IRS could seek to reallocate some or all of any Section 743(b) adjustment allocated by us to our tangible assets to goodwill instead. Goodwill, as an intangible asset, is generally nonamortizable or amortizable over a longer period of time or under a less accelerated method than our tangible assets. We cannot assure you that the determinations we make will not be successfully challenged by the IRS and that the deductions resulting from them will not be reduced or disallowed altogether. Should the IRS require a different basis adjustment to be made, and should, in our opinion, the expense of compliance exceed the benefit of the election, we may seek permission from the IRS to revoke our Section 754 election. If permission is granted, a subsequent purchaser of units may be allocated more income than he would have been allocated had the election not been revoked.

Tax Treatment of Operations

Accounting Method and Taxable Year. We use the year ending December 31 as our taxable year and the accrual method of accounting for federal income tax purposes. Each unitholder will be required to include in income his share of our income, gain, loss and deduction for our taxable year ending within or with his taxable year. In addition, a unitholder who has a taxable year ending on a date other than December 31 and who disposes of all of his units following the close of our taxable year but before the close of his taxable year must include his share of our income, gain, loss and deduction in income for his taxable year, with the result that he will be required to include in income for his taxable year his share of more than twelve months of our income, gain, loss and deduction. Please read [Disposition of Common Units Allocations Between Transferors and Transferees](#).

Initial Tax Basis, Depreciation and Amortization. The tax basis of our assets will be used for purposes of computing depreciation and cost recovery deductions and, ultimately, gain or loss on the disposition of these assets. The federal income tax burden associated with the difference between the fair market value of our

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assets and their tax basis immediately prior to an offering will be borne by our partners holding an interest in us prior to such offering. Please read **Tax Consequences of Unit Ownership Allocation of Income, Gain, Loss and Deduction**.

To the extent allowable, we may elect to use the depreciation and cost recovery methods, including bonus depreciation to the extent available, that will result in the largest deductions being taken in the early years after assets subject to these allowances are placed in service. Please read **Uniformity of Units**. Property we subsequently acquire or construct may be depreciated using accelerated methods permitted by the Internal Revenue Code.

If we dispose of depreciable property by sale, foreclosure or otherwise, all or a portion of any gain, determined by reference to the amount of depreciation previously deducted and the nature of the property, may be subject to the recapture rules and taxed as ordinary income rather than capital gain. Similarly, a unitholder who has taken cost recovery or depreciation deductions with respect to property we own will likely be required to recapture some or all of those deductions as ordinary income upon a sale of his interest in us. Please read **Tax Consequences of Unit Ownership Allocation of Income, Gain, Loss and Deduction** and **Disposition of Common Units Recognition of Gain or Loss**.

The costs incurred in selling our units (called **syndication expenses**) must be capitalized and cannot be deducted currently, ratably or upon our termination. There are uncertainties regarding the classification of costs as organization expenses, which may be amortized by us, and as syndication expenses, which may not be amortized by us. The underwriting discounts and commissions we incur will be treated as syndication expenses.

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

Disposition of Common Units

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

Prior distributions from us that in the aggregate were in excess of cumulative net taxable income for a common unit and, therefore, decreased a unitholder's tax basis in that common unit will, in effect, become taxable income if the common unit is sold at a price greater than the unitholder's tax basis in that common unit, even if the price received is less than his original cost.

Except as noted below, gain or loss recognized by a unitholder, other than a **dealer** in units, on the sale or exchange of a unit will generally be taxable as capital gain or loss. Capital gain recognized by an individual on the sale of units held for more than twelve months will generally be taxed at favorable rates, currently a maximum U.S. federal income tax rate of 15%. However, a portion of this gain or loss, which will likely be substantial, will be separately computed and taxed as ordinary income or loss under Section 751 of the Internal Revenue Code to the extent attributable to assets giving rise to depreciation recapture or other **unrealized receivables** or to **inventory items** we own. The term **unrealized receivables** includes potential recapture items, including depreciation recapture. Ordinary income attributable to **unrealized receivables**, **inventory items** and depreciation recapture may exceed net taxable gain realized upon the sale of a unit and may be recognized

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even if there is a net taxable loss realized on the sale of a unit. Thus, a unitholder may recognize both ordinary income and a capital loss upon a sale of units. Capital losses may offset capital gains and no more than \$3,000 of ordinary income, in the case of individuals, and may only be used to offset capital gains in the case of corporations.

The IRS has ruled that a partner who acquires interests in a partnership in separate transactions must combine those interests and maintain a single adjusted tax basis for all those interests. Upon a sale or other disposition of less than all of those interests, a portion of that tax basis must be allocated to the interests sold using an equitable apportionment method, which generally means that the tax basis allocated to the interest sold equals an amount that bears the same relation to the partner's tax basis in his entire interest in the partnership as the value of the interest sold bears to the value of the partner's entire interest in the partnership. Treasury Regulations under Section 1223 of the Internal Revenue Code allow a selling unitholder who can identify common units transferred with an ascertainable holding period to elect to use the actual holding period of the common units transferred. Thus, according to the ruling discussed above, a common unitholder will be unable to select high or low basis common units to sell as would be the case with corporate stock, but, according to the Treasury Regulations, may designate specific common units sold for purposes of determining the holding period of units transferred. A unitholder electing to use the actual holding period of common units transferred must consistently use that identification method for all subsequent sales or exchanges of common units. A unitholder considering the purchase of additional units or a sale of common units purchased in separate transactions is urged to consult his tax advisor as to the possible consequences of this ruling and application of the Treasury Regulations.

Specific provisions of the Internal Revenue Code affect the taxation of some financial products and securities, including partnership interests, by treating a taxpayer as having sold an appreciated partnership interest, one in which gain would be recognized if it were sold, assigned or terminated at its fair market value, if the taxpayer or related persons enter(s) into:

a short sale;

an offsetting notional principal contract; or

a futures or forward contract;

in each case, with respect to the partnership interest or substantially identical property.

Moreover, if a taxpayer has previously entered into a short sale, an offsetting notional principal contract or a futures or forward contract with respect to the partnership interest, the taxpayer will be treated as having sold that position if the taxpayer or a related person then acquires the partnership interest or substantially identical property. The Secretary of the Treasury is also authorized to issue regulations that treat a taxpayer that enters into transactions or positions that have substantially the same effect as the preceding transactions as having constructively sold the financial position.

Allocations Between Transferors and Transferees. In general, our taxable income and losses will be determined annually, will be prorated on a monthly basis and will be subsequently apportioned among the unitholders in proportion to the number of units owned by each of them as of the opening of the applicable exchange on the first business day of the month, which we refer to in this prospectus as the Allocation Date. However, gain or loss realized on a sale or other disposition of our assets other than in the ordinary course of business will be allocated among the unitholders on the Allocation Date in the month in which that gain or loss is recognized. As a result, a unitholder transferring units may be allocated income, gain, loss and deduction realized after the date of transfer.

Although simplifying conventions are contemplated by the Internal Revenue Code and most publicly traded partnerships use similar simplifying conventions, the use of this method may not be permitted under existing Treasury Regulations as there is no direct or indirect controlling authority on this issue. Recently, 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

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items among transferor and transferee unitholders, although such tax items must be prorated on a daily basis. Existing publicly traded partnerships are entitled to rely on these proposed Treasury Regulations; however, they are not binding on the IRS and are subject to change until final Treasury Regulations are issued. Accordingly, Latham & Watkins LLP is unable to opine on the validity of this method of allocating income and deductions between transferor and transferee unitholders because the issue has not been finally resolved by the IRS or the courts. If this method is not allowed under the Treasury Regulations, or only applies to transfers of less than all of the unitholder's interest, our taxable income or losses might be reallocated among the unitholders. We are authorized to revise our method of allocation between transferor and transferee unitholders, as well as unitholders whose interests vary during a taxable year, to conform to a method permitted under future Treasury Regulations.

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

Notification Requirements. A unitholder who sells any of his units is generally required to notify us in writing of that sale within 30 days after the sale (or, if earlier, January 15 of the year following the sale). A purchaser of units who purchases units from another unitholder is also generally required to notify us in writing of that purchase within 30 days after the purchase. Upon receiving such notifications, we are required to notify the IRS of that transaction and to furnish specified information to the transferor and transferee. Failure to notify us of a purchase may, in some cases, lead to the imposition of penalties. However, these reporting requirements do not apply to a sale by an individual who is a citizen of the United States and who effects the sale or exchange through a broker who will satisfy such requirements.

Technical Termination. We will be considered to have been terminated for tax purposes if there are sales or exchanges which, in the aggregate, constitute 50% or more of the total interests in our capital and profits within a twelve-month period. For purposes of measuring whether the 50% threshold is reached, multiple sales of the same interest are counted only once. A technical termination results in the closing of our taxable year for all unitholders. In the case of a unitholder reporting on a taxable year other than a fiscal year ending December 31, the closing of our taxable year may result in more than twelve months of our taxable income or loss being includable in his taxable income for the year of termination. A technical termination occurring on a date other than December 31 will result in us filing two tax returns (and unitholders could receive two Schedules K-1 if the relief discussed below is not available) for one fiscal year and the cost of the preparation of these returns will be borne by all common unitholders. We would be required to make new tax elections after a technical termination, including a new election under Section 754 of the Internal Revenue Code, and a technical termination would result in a deferral of our deductions for depreciation. A technical termination could also result in penalties if we were unable to determine that the termination had occurred. Moreover, a technical termination might either accelerate the application of, or subject us to, any tax legislation enacted before the termination. 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 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.

Uniformity of Units

Because we cannot match transferors and transferees of units, we must maintain uniformity of the economic and tax characteristics of the units to a purchaser of these units. In the absence of uniformity, we may be unable to completely comply with a number of federal income tax requirements, both statutory and regulatory. A lack of uniformity can result from a literal application of Treasury Regulation Section 1.167(c)-1(a)(6) and Treasury Regulation Section 1.197-2(g)(3). Any non-uniformity could have a negative impact on the value of the units. Please read Tax Consequences of Unit Ownership Section 754 Election.

We intend to depreciate the portion of a Section 743(b) adjustment attributable to unrealized appreciation in the value of Contributed Property, to the extent of any unamortized Book-Tax Disparity, using a rate of depreciation or amortization derived from the depreciation or amortization method and useful life applied to the property's unamortized Book-Tax Disparity, or treat that portion as nonamortizable, to the extent

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attributable to property the common basis of which is not amortizable, consistent with the Treasury Regulations under Section 743 of the Internal Revenue Code, even though that position may be inconsistent with Treasury Regulation Section 1.167(c)-1(a)(6), which is not expected to directly apply to a material portion of our assets, and Treasury Regulation Section 1.197-2(g)(3). Please read Tax Consequences of Unit Ownership Section 754 Election. To the extent that the Section 743(b) adjustment is attributable to appreciation in value in excess of the unamortized Book-Tax Disparity, we will apply the rules described in the Treasury Regulations and legislative history. If we determine that this position cannot reasonably be taken, we may adopt a depreciation and amortization position under which all purchasers acquiring units in the same month would receive depreciation and amortization deductions, whether attributable to a common basis or Section 743(b) adjustment, based upon the same applicable rate as if they had purchased a direct interest in our property. If this position is adopted, it may result in lower annual depreciation and amortization deductions than would otherwise be allowable to some unitholders and risk the loss of depreciation and amortization deductions not taken in the year that these deductions are otherwise allowable. This position will not be adopted if we determine that the loss of depreciation and amortization deductions will have a material adverse effect on the unitholders. If we choose not to utilize this aggregate method, we may use any other reasonable depreciation and amortization method to preserve the uniformity of the intrinsic tax characteristics of any units that would not have a material adverse effect on the unitholders. In either case, and as stated above under Tax Consequences of Unit Ownership Section 754 Election, Latham & Watkins LLP has not rendered an opinion with respect to these methods. Moreover, the IRS may challenge any method of depreciating the Section 743(b) adjustment described in this paragraph. If this challenge were sustained, the uniformity of units might be affected, and the gain from the sale of units might be increased without the benefit of additional deductions. Please read Disposition of Common Units Recognition of Gain or Loss.

Tax-Exempt Organizations and Other Investors

Ownership of units by employee benefit plans, other tax-exempt organizations, non-resident aliens, foreign corporations and other foreign persons raises issues unique to those investors and, as described to a limited extent below, may have substantially adverse tax consequences to them. If you are a tax-exempt entity or a non-U.S. person, you should consult your tax advisor before investing in our common units.

Employee benefit plans and most other organizations exempt from federal income tax, including individual retirement accounts and other retirement plans, are subject to federal income tax on unrelated business taxable income. Virtually all of our income allocated to a unitholder that is a tax-exempt organization will be unrelated business taxable income and will be taxable to it.

Non-resident aliens and foreign corporations, or beneficiaries of trusts or estates, that own units will be considered to be engaged in business in the United States because of the ownership of units. As a consequence, they will be required to file federal tax returns to report their share of our income, gain, loss or deduction and pay federal income tax at regular rates on their share of our net income or gain. Moreover, under rules applicable to publicly traded partnerships, we will withhold at the highest applicable effective tax rate from cash distributions made quarterly to foreign unitholders. Each foreign unitholder must obtain a taxpayer identification number from the IRS and submit that number to our transfer agent on a Form W-8BEN or applicable substitute form in order to obtain credit for these withholding taxes. A change in applicable law may require us to change these procedures.

In addition, because a foreign corporation that owns units will be treated as engaged in a United States trade or business, that corporation may be subject to the United States branch profits tax at a rate of 30%, in addition to regular federal income tax, on its share of our earnings and profits, as adjusted for changes in the foreign corporation's U.S. net equity, that is effectively connected with the conduct of a United States trade or business. That tax may be reduced or eliminated by an income tax treaty between the United States and the country in which the foreign corporate unitholder is a qualified resident. In addition, this type of unitholder is subject to special information reporting requirements under Section 6038C of the Internal Revenue Code.

A foreign unitholder who sells or otherwise disposes of a common unit will be subject to U.S. federal income tax on gain realized from the sale or disposition of that unit to the extent the gain is effectively connected

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with a U.S. trade or business of the foreign unitholder. Under a ruling published by the IRS, interpreting the scope of effectively connected income, a foreign unitholder would be considered to be engaged in a trade or business in the U.S. by virtue of the U.S. activities of the partnership, and part or all of that unitholder's gain would be effectively connected with that unitholder's indirect U.S. trade or business. Moreover, under the Foreign Investment in Real Property Tax Act, a foreign common unitholder generally will be subject to U.S. federal income tax upon the sale or disposition of a common unit if (i) he owned (directly or constructively applying certain attribution rules) more than 5% of our common units at any time during the five-year period ending on the date of such disposition and (ii) 50% or more of the fair market value of all of our assets consisted of U.S. real property interests at any time during the shorter of the period during which such unitholder held the common units or the 5-year period ending on the date of disposition. Currently, more than 50% of our assets consist of U.S. real property interests and we do not expect that to change in the foreseeable future. Therefore, foreign unitholders may be subject to federal income tax on gain from the sale or disposition of their units.

Administrative Matters

Information Returns and Audit Procedures. We intend to furnish to each unitholder, within 90 days after the close of each calendar year, specific tax information, including a Schedule K-1, which describes his share of our income, gain, loss and deduction for our preceding taxable year. In preparing this information, which will not be reviewed by counsel, we will take various accounting and reporting positions, some of which have been mentioned earlier, to determine each unitholder's share of income, gain, loss and deduction. We cannot assure you that those positions will yield a result that conforms to the requirements of the Internal Revenue Code, Treasury Regulations or administrative interpretations of the IRS. Neither we nor Latham & Watkins LLP can assure prospective unitholders that the IRS will not successfully contend in court that those positions are impermissible. Any challenge by the IRS could negatively affect the value of the units. The IRS may audit our federal income tax information returns. Adjustments resulting from an IRS audit may require each unitholder to adjust a prior year's tax liability, and possibly may result in an audit of his return. Any audit of a unitholder's return could result in adjustments not related to our returns as well as those related to our returns.

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

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

A unitholder must file a statement with the IRS identifying the treatment of any item on his federal income tax return that is not consistent with the treatment of the item on our return. Intentional or negligent disregard of this consistency requirement may subject a unitholder to substantial penalties.

Nominee Reporting. Persons who hold an interest in us as a nominee for another person are required to furnish to us:

- (a) the name, address and taxpayer identification number of the beneficial owner and the nominee;

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- (b) whether the beneficial owner is:
 - 1. a person that is not a United States person;
 - 2. a foreign government, an international organization or any wholly owned agency or instrumentality of either of the foregoing; or
 - 3. a tax-exempt entity;
- (c) the amount and description of units held, acquired or transferred for the beneficial owner; and
- (d) specific information including the dates of acquisitions and transfers, means of acquisitions and transfers, and acquisition cost for purchases, as well as the amount of net proceeds from dispositions.

Brokers and financial institutions are required to furnish additional information, including whether they are United States persons and specific information on units they acquire, hold or transfer for their own account. A penalty of \$50 per failure, up to a maximum of \$100,000 per calendar year, is imposed by the Internal Revenue Code for failure to report that information to us. The nominee is required to supply the beneficial owner of the units with the information furnished to us.

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

For individuals, a substantial understatement of income tax in any taxable year exists if the amount of the understatement exceeds the greater of 10% of the tax required to be shown on the return for the taxable year or \$5,000. The amount of any understatement subject to penalty generally is reduced if any portion is attributable to a position adopted on the return:

- (1) for which there is, or was, substantial authority ; or
- (2) as to which there is a reasonable basis and the pertinent facts of that position are disclosed on the return.

If any item of income, gain, loss or deduction included in the distributive shares of unitholders might result in that kind of an understatement of income for which no substantial authority exists, we must disclose the pertinent facts on our return. In addition, we will make a reasonable effort to furnish sufficient information for unitholders to make adequate disclosure on their returns and to take other actions as may be appropriate to permit unitholders to avoid liability for this penalty. More stringent rules apply to tax shelters, which we do not believe includes us, or any of our investments, plans or arrangements.

A substantial valuation misstatement exists if (a) the value of any property, or the adjusted tax basis of any property, claimed on a tax return is 150% or more of the amount determined to be the correct amount of the valuation or adjusted tax basis, (b) the price for any property or services (or for the use of property) claimed on any such return with respect to any transaction between persons described in Internal Revenue Code Section 482 is 200% or more (or 50% or less) of the amount determined under Section 482 to be the correct amount of such price, or (c) the net Internal Revenue Code Section 482 transfer price adjustment for the taxable year exceeds the lesser of \$5 million or 10% of the taxpayer's gross receipts. No penalty is imposed unless the portion of the underpayment attributable to a substantial valuation misstatement exceeds \$5,000 (\$10,000 for most corporations). If the valuation claimed on a return is 200% or more of the correct valuation or certain other thresholds are met, the penalty imposed increases to 40%. We do not anticipate making any valuation misstatements.

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In addition, the 20% accuracy-related penalty also applies to any portion of an underpayment of tax that is attributable to transactions lacking economic substance. To the extent that such transactions are not disclosed, the penalty imposed is increased to 40%. Additionally, there is no reasonable cause defense to the imposition of this penalty to such transactions.

Reportable Transactions. If we were to engage in a reportable transaction, we (and possibly you and others) would be required to make a detailed disclosure of the transaction to the IRS. A transaction may be a reportable transaction based upon any of several factors, including the fact that it is a type of tax avoidance transaction publicly identified by the IRS as a listed transaction or that it produces certain kinds of losses for partnerships, individuals, S corporations, and trusts in excess of \$2 million in any single year, or \$4 million in any combination of 6 successive tax years. Our participation in a reportable transaction could increase the likelihood that our federal income tax information return (and possibly your tax return) would be audited by the IRS. Please read Information Returns and Audit Procedures.

Moreover, if we were to participate in a reportable transaction with a significant purpose to avoid or evade tax, or in any listed transaction, you may be subject to the following additional consequences:

accuracy-related penalties with a broader scope, significantly narrower exceptions, and potentially greater amounts than described above at Accuracy-Related Penalties,

for those persons otherwise entitled to deduct interest on federal tax deficiencies, nondeductibility of interest on any resulting tax liability and

in the case of a listed transaction, an extended statute of limitations.

We do not expect to engage in any reportable transactions.

State, Local, Foreign and Other Tax Considerations

In addition to federal income taxes, you likely will be subject to other taxes, such as state, local and foreign income taxes, unincorporated business taxes, and estate, inheritance or intangible taxes that may be imposed by the various jurisdictions in which we conduct business or own property or in which you are a resident. Although an analysis of those various taxes is not presented here, each prospective unitholder should consider their potential impact on his investment in us. We currently own property or conduct business in more than 40 states. Most of these states impose an income tax on individuals, corporations and other entities. We may also own property or do business in other jurisdictions in the future. Although you may not be required to file a return and pay taxes in some jurisdictions because your income from that jurisdiction falls below the filing and payment requirement, you will be required to file income tax returns and to pay income taxes in many of these jurisdictions in which we do business or own property and may be subject to penalties for failure to comply with those requirements. In some jurisdictions, tax losses may not produce a tax benefit in the year incurred and may not be available to offset income in subsequent taxable years. Some of the jurisdictions may require us, or we may elect, to withhold a percentage of income from amounts to be distributed to a unitholder who is not a resident of the jurisdiction. Withholding, the amount of which may be greater or less than a particular unitholder's income tax liability to the jurisdiction, generally does not relieve a nonresident unitholder from the obligation to file an income tax return. Amounts withheld will be treated as if distributed to unitholders for purposes of determining the amounts distributed by us. Please read Tax Consequences of Unit Ownership Entity-Level Collections. Based on current law and our estimate of our future operations, our general partner anticipates that any amounts required to be withheld will not be material.

It is the responsibility of each unitholder to investigate the legal and tax consequences, under the laws of pertinent jurisdictions, of his investment in us. Accordingly, each prospective unitholder is urged to consult, and depend upon, his tax counsel or other advisor with regard to those matters. Further, it is the responsibility of each unitholder to file all state, local and foreign, as well as United States federal tax returns, that may be required of him. Latham & Watkins LLP has not rendered an opinion on the state, local or foreign tax consequences of an investment in us.

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INVESTMENTS IN US BY EMPLOYEE BENEFIT PLANS

An investment in our units or debt securities by an employee benefit plan is subject to certain additional considerations because the investments of such plans are subject to the fiduciary responsibility and prohibited transaction provisions of the Employee Retirement Income Security Act of 1974, as amended, or ERISA, and restrictions imposed by Section 4975 of the Internal Revenue Code of 1986, as amended, or the Code, and provisions under any federal, state, local, non-U.S. or other laws or regulations that are similar to such provisions of the Internal Revenue Code or ERISA, which we refer to collectively as Similar Laws. As used herein, the term employee benefit plan includes, but is not limited to, qualified pension, profit-sharing and stock bonus plans, Keogh plans, simplified employee pension plans and tax deferred annuities or individual retirement accounts or other arrangements established or maintained by an employer or employee organization, and entities whose underlying assets are considered to include plan assets of such plans, accounts and arrangements.

General Fiduciary Matters

ERISA and the Code impose certain duties on persons who are fiduciaries of an employee benefit plan that is subject to Title I of ERISA or Section 4975 of the Code, which we refer to as an ERISA Plan, and prohibit certain transactions involving the assets of an ERISA Plan and its fiduciaries or other interested parties. Under ERISA and the Code, any person who exercises any discretionary authority or control over the administration of such an ERISA Plan or the management or disposition of the assets of such an ERISA Plan, or who renders investment advice for a fee or other compensation to such an ERISA Plan, is generally considered to be a fiduciary of the ERISA Plan. In considering an investment in our units or debt securities, among other things, consideration should be given to (a) whether such investment is prudent under Section 404(a)(1)(B) of ERISA and any other applicable Similar Laws; (b) whether in making such investment, such plan will satisfy the diversification requirement of Section 404(a)(1)(C) of ERISA and any other applicable Similar Laws; (c) whether making such an investment will comply with the delegation of control and prohibited transaction provisions of ERISA, the Code and any other applicable Similar Laws, and (d) whether such investment will result in recognition of unrelated business taxable income by such plan and, if so, the potential after-tax investment return. Please read Material Federal Income Tax Considerations. The person with investment discretion with respect to the assets of an employee benefit plan, which we refer to as a fiduciary, should determine whether an investment in our units or debt securities is authorized by the appropriate governing instrument and is a proper investment for such plan.

Prohibited Transaction Issues

Section 406 of ERISA and Section 4975 of the Code (which also applies to IRAs that are not considered part of an employee benefit plan) prohibit an employee benefit plan from engaging in certain transactions involving plan assets with parties that are parties in interest under ERISA or disqualified persons under the Code with respect to the plan, unless an exemption is available. A party in interest or disqualified person who engages in a non-exempt prohibited transaction may be subject to excise taxes and other penalties and liabilities under ERISA and the Code. In addition, the fiduciary of the ERISA Plan that engaged in such a non-exempt prohibited transaction may be subject to penalties and liabilities under ERISA and the Code.

The acquisition and/or holding of the common units or debt securities by an ERISA Plan with respect to which we or the initial purchasers are considered a party in interest or a disqualified person, may constitute or result in a direct or indirect prohibited transaction under Section 406 of ERISA and/or Section 4975 of the Code, unless the common units or debt securities are acquired and held in accordance with an applicable statutory, class or individual prohibited transaction exemption. In this regard, the U.S. Department of Labor has issued prohibited transaction class exemptions, or PTCEs, that may apply to the acquisition, holding and, if applicable, conversion of the common units or debt securities. These class exemptions include, without limitation, PTCE 84-14 respecting transactions determined by independent qualified professional asset managers, PTCE 90-1 respecting insurance company pooled separate accounts, PTCE 91-38 respecting bank collective investment funds, PTCE 95-60 respecting life insurance company general accounts and PTCE 96-23 respecting

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transactions determined by in-house asset managers. There can be no assurance that all of the conditions of any such exemptions will be satisfied.

Because of the foregoing, the common units or debt securities should not be purchased or held (or converted to equity securities, in the case of any convertible debt) by any person investing plan assets of any employee benefit plan, unless such purchase and holding (or conversion, if any) will not constitute a non-exempt prohibited transaction under ERISA and the Code or similar violation of any applicable Similar Laws.

Representation

Accordingly, by acceptance of the common units or debt securities, each purchaser and subsequent transferee of the common units or debt securities will be deemed to have represented and warranted that either (i) no portion of the assets used by such purchaser or transferee to acquire and hold the common units or debt securities constitutes assets of any employee benefit plan or (ii) the purchase and holding (and any conversion, if applicable) of the common units or debt securities by such purchaser or transferee will not constitute a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or similar violation under any applicable Similar Laws.

Plan Asset Issues

In addition to considering whether the purchase of our limited partnership units or debt securities is a prohibited transaction, a fiduciary of an employee benefit plan should consider whether such plan will, by investing in our units or debt securities, be deemed to own an undivided interest in our assets, with the result that our general partner also would be a fiduciary of such plan and our operations would be subject to the regulatory restrictions of ERISA, including its prohibited transaction rules, as well as the prohibited transaction rules of the Code and any other applicable Similar Laws.

The Department of Labor regulations provide guidance with respect to whether the assets of an entity in which employee benefit plans acquire equity interests would be deemed plan assets under certain circumstances. Pursuant to these regulations, an entity's assets would not be considered to be plan assets if, among other things, (a) the equity interest acquired by employee benefit plans are publicly offered securities i.e., the equity interests are widely held by 100 or more investors independent of the issuer and each other, freely transferable and registered pursuant to certain provisions of the federal securities laws, (b) the entity is an operating company i.e., it is primarily engaged in the production or sale of a product or service other than the investment of capital either directly or through a majority owned subsidiary or subsidiaries, or (c) there is no significant investment by benefit plan investors, which is defined to mean that less than 25% of the value of each class of equity interest (disregarding certain interests held by our general partner, its affiliates and certain other persons) is held by the employee benefit plans that are subject to part 4 of Title I of ERISA (which excludes governmental plans and non-electing church plans) and/or Section 4975 of the Code, IRAs and certain other employee benefit plans not subject to ERISA (such as electing church plans). With respect to an investment in our units, our assets should not be considered plan assets under these regulations because it is expected that the investment will satisfy the requirements in (a) and (b) above and may also satisfy the requirements in (c) above (although we do not monitor the level of benefit plan investors as required for compliance with (c)). With respect to an investment in our debt securities, our assets should not be considered plan assets under these regulations because such securities are not equity securities or, even if they are considered to be equity securities for purposes of the Department of Labor Regulations, the investment will be expected to satisfy one or both of the requirements in (a) and (b) above.

The foregoing discussion of issues arising for employee benefit plan investments under ERISA, the Code and Similar Laws should not be construed as legal advice. Plan fiduciaries contemplating a purchase of our limited partnership units or debt securities should consult with their own counsel regarding the consequences under ERISA, the Code and other Similar Laws in light of the serious penalties imposed on persons who engage in prohibited transactions or other violations.

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LEGAL MATTERS

The validity of the securities offered in this prospectus will be passed upon for us by Latham & Watkins LLP, Houston, Texas. Latham & Watkins LLP will also render an opinion on the material federal income tax considerations regarding the securities. If certain legal matters in connection with an offering of the securities made by this prospectus and a related prospectus supplement are passed on by counsel for the underwriters of such offering, that counsel will be named in the applicable prospectus supplement related to that offering.

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. and the audited consolidated balance sheets of Energy Transfer Partners GP, L.P. and Energy Transfer Partners, L.L.C., all incorporated by reference in this prospectus, 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 have filed a registration statement with the SEC under the Securities Act of 1933 that registers the securities offered by this prospectus. The registration statement, including the attached exhibits, contains additional relevant information about us. The rules and regulations of the SEC allow us to omit some information included in the registration statement from this prospectus.

In addition, we file annual, quarterly and other reports and other information with 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 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. Information that we file later with the SEC will automatically update and may replace information in this prospectus and information previously filed with the SEC.

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

our annual report on Form 10-K for the year ended December 31, 2009;

our quarterly reports on Form 10-Q for the quarters ended March 31, 2010, June 30, 2010 (as amended by the Form 10-Q/A filed on September 7, 2010, which is also incorporated by reference herein) and September 30, 2010;

our current reports on Forms 8-K filed January 8, 2010, January 28, 2010, April 29, 2010, May 11, 2010 (as amended by the Form 8-K/A filed on May 13, 2010, which was amended by the Form 8-K/A filed on June 2, 2010, each of which is also incorporated by reference herein), July 29, 2010, August 10, 2010, August 20, 2010, October 28, 2010, December 7, 2010 and December 8, 2010;

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the description of our common units in our registration statement on Form 8-A (File No. 1-11727) filed pursuant to the Securities Exchange Act of 1934 on May 16, 1996; 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 and the termination of the registration statement.

You may obtain any of the documents incorporated by reference in this 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 (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 following address:

Energy Transfer Partners, L.P.

3738 Oak Lawn Avenue

Dallas, TX 75219

Attention: Thomas P. Mason

Telephone: (214) 981-0700

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Minority interests

40,015 (384) 39,631 94,550 15 94,565

Net income allocable to members

\$297,447 \$(18,010) \$279,437 \$250,383 \$54,115 \$304,498

Notes to Unaudited Pro Forma Condensed Consolidated Statements of Income (\$ in thousands):

- (a) Reflects adjustments necessary to remove the historical results of operations of Lazard Group's separated businesses.
- (b) Interest expense includes dividends relating to Lazard Group's mandatorily redeemable preferred stock issued in March 2001, which amounted to \$8,000 and \$8,000 in the years ended December 31, 2002 and 2003, respectively.

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

The following discussion should be read in conjunction with Lazard Group's historical consolidated financial statements and the related notes included elsewhere in this prospectus. This discussion contains forward-looking statements that are subject to known and unknown risks and uncertainties. Actual results and the timing of events may differ significantly from those expressed or implied in such forward-looking statements due to a number of factors, including those set forth in the section entitled "Risk Factors" and elsewhere in this prospectus.

The historical consolidated financial data of Lazard Group discussed below reflect the historical results of operations and financial position of Lazard Group, including the separated businesses that will not be retained by Lazard Group following this offering. Accordingly, the historical consolidated financial data do not give effect to the separation and recapitalization transactions, including the completion of this offering and the additional financing transactions. See "The Separation and Recapitalization Transactions and the Lazard Organizational Structure" and "Unaudited Pro Forma Financial Information" included elsewhere in this prospectus.

Business Summary

Lazard Group's principal sources of revenue are derived from activities in the following business segments:

Financial Advisory, which includes providing advice on mergers, acquisitions, restructurings and other financial matters,

Asset Management, which includes the management of equity and fixed income securities and merchant banking funds, and

Capital Markets and Other, which consists of equity, fixed income and convertibles sales and trading, broking, research and underwriting services, merchant banking fund management activities outside of France and specified non-operating assets and liabilities. In connection with the separation, Lazard Group will transfer its Capital Markets and Other segment to LFCM Holdings.

In addition, we record selected other activities in Corporate, including cash and marketable investments, certain long-term investments and our Paris-based LFB. LFB is a registered bank regulated by the Banque de France. LFB's primary operations include commercial banking, the management of the treasury positions of Lazard's Paris House through its money market desk and, to a lesser extent, credit activities relating to securing loans granted to clients of LFG and custodial oversight over assets of various clients. In addition, LFB also operates many support functions of the Paris House. We also allocate outstanding indebtedness to Corporate. Following this offering, the indebtedness and interest expense related to the additional financing transactions will be accounted for as part of Corporate as well.

For the year ended December 31, 2004, Financial Advisory, Asset Management, Capital Markets and Other and Corporate contributed approximately 51%, 33%, 15% and 1% of Lazard Group's net revenue, respectively.

Business Environment

Economic and market conditions, particularly global M&A activity, can significantly affect our financial performance.

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The respective source for the data contained herein relating to (i) the volume of global and trans-Atlantic completed and announced merger and acquisition transactions is Thomson Financial, (ii) the amount of corporate debt defaults is Moody's Investors Service, Inc., cited with permission, all rights reserved, (iii) the amount of hedge fund assets from Van Hedge Fund Advisors, and (iv) funds raised for global private capital, including private equity and venture capital investment funds, is Thomson Venture Economics/National Venture Capital, March 2005.

Financial Advisory

From the early 1990s through 2000, there was relatively consistent and substantial growth in global M&A activity. The volume of global completed M&A transactions grew from \$359 billion in 1993 to \$3,720 billion in 2000. Of the total market, the volume of trans-Atlantic completed M&A transactions (involving either a U.S. or Canadian party transacting with a European counterparty) grew from \$22 billion in 1993 to \$386 billion in 2000.

Beginning in 2001, the volume of global completed M&A transactions began to decline significantly, falling 67% from \$3,720 billion in 2000 to \$1,220 billion in 2003, with the volume of trans-Atlantic completed M&A transactions down 74% from \$386 billion to \$102 billion in the same period. At the same time, corporate debt defaults increased significantly, reaching a peak of \$164 billion in 2002, up 466% from \$29 billion in 2000. In 2003, corporate debt defaults decreased to \$34 billion, down 79% from \$164 billion in 2002, reflecting improved global economic conditions.

In 2004, global M&A volume increased while restructuring activity continued to decline significantly. For the year ended December 31, 2004, the volume of global completed M&A transactions increased 29% versus the year ended December 31, 2003, increasing to \$1,574 billion from \$1,220 billion, respectively, with the volume of trans-Atlantic completed M&A transactions experiencing a 2% increase. Over the same period, the volume of global announced M&A transactions increased by 39% in 2004, from \$1,398 billion to \$1,937 billion, and the volume of trans-Atlantic announced M&A transactions increased by 13% from \$99 billion to \$112 billion, reflecting growing industry-wide activity. Over the same time frame, financial restructuring activity continued to decline, with the amount of corporate debt defaults falling from \$34 billion to \$16 billion, or by 53%. We believe that our Financial Advisory business will benefit from any sustained increase in M&A volume. Any such improvement will most likely be accompanied, at least in part, by counter-cyclical weakness in restructuring activity.

We believe that this counter-cyclical relationship can be seen in Lazard Group's results. Between 2000 and 2003, Lazard Group's Mergers and Acquisitions net revenue declined from \$725 million to \$420 million as the volume of global completed M&A transactions across the industry declined amidst challenging economic and capital markets conditions. Conversely, over the same time period, the net revenue of Lazard Group's Financial Restructuring practice, the first full operating year of which commenced in 2000, increased from \$34 million to \$245 million, driven primarily by increased restructuring transaction volume stemming from higher levels of global corporate debt defaults. Similarly, for the year ended December 31, 2004, Lazard Group's Mergers and Acquisitions net revenue increased to \$482 million from \$420 million in 2003 as M&A activity rebounded, while Financial Restructuring net revenue declined to \$96 million from \$245 million over the same time period, reflecting diminished restructuring activity due to declining levels of global corporate debt defaults.

Asset Management

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From 1994 to 2004, global stock markets appreciated substantially. The MSCI World Index rose by 7% on a compounded annual basis during this period. European markets experienced similar improvement, with the FTSE 100, CAC 40 and DAX indices up 5%, 7% and 7%, respectively, on a

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compounded annual basis. In the U.S., the Dow Jones Industrial, S&P 500 and NASDAQ indices rose by 11%, 10% and 11%, respectively, on a compounded annual basis. According to *Pensions & Investments*, an industry publication, worldwide assets managed by the top 100 asset managers grew by 21%, on a compounded annual basis, from 1994 to 2003. We believe that this growth in excess of market appreciation reflects a shift towards assets being concentrated among leading asset managers and consolidation within the asset management industry. During the same period, assets managed in hedge funds and merchant banking funds also experienced significant growth. Hedge fund assets, for example, grew 18%, on a compounded annual basis, to \$950 billion at year end 2004, and funds raised for global private capital, which includes private equity and venture capital investment funds, increased by 11% on a compounded annual basis.

While global stock markets experienced substantial appreciation from 1994 to 2004, markets have experienced considerable volatility since 1999, with various market indices reaching record highs in 1999 and the first quarter of 2000, and then declining steadily through December 31, 2002. From 1999 to 2002, the MSCI World Index declined by 18%, on a compounded annual basis, while in Europe, the FTSE 100, CAC 40 and DAX indices declined 17%, 20% and 25%, respectively, on a compounded annual basis. In the U.S., the Dow Jones Industrial, S&P 500 and NASDAQ indices declined by 10%, 16% and 31%, respectively, on a compounded annual basis, in the same time frame. These declines were followed by considerable improvements in the global markets in 2003 and 2004. From January 1, 2003 until December 31, 2004, the MSCI World Index rose by 22%, on a compounded annual basis, with the FTSE 100, CAC 40 and DAX indices gaining 11%, 12% and 21%, respectively, on a compounded annual basis. In the U.S., the Dow Jones Industrial, S&P 500 and NASDAQ indices gained 14%, 17% and 28%, respectively, on a compounded annual basis for the same period. The changes in global market indices correspond with Lazard Group's market-related changes in its AUM.

Recent Developments

During the first quarter of 2005, net revenue in our Mergers and Acquisitions practice increased by 64% in comparison to the first quarter of 2004. This reflects an improvement relative to the 28% growth in Mergers and Acquisitions net revenue we realized during the fourth quarter of 2004 in comparison to the fourth quarter of 2003, and relative to the 15% growth in net revenue we realized for the full year 2004 in comparison to 2003. Net revenue in a particular quarter may not be indicative, however, of future results. During the first quarter of 2005, net revenue in our Financial Restructuring practice increased 36% in comparison to the first quarter of 2004, relative to a 61% decrease in Financial Restructuring net revenue for the full year 2004 in comparison to 2003. During the first quarter of 2005, we have represented, among others, MCI in its evaluation of its strategic alternatives, SunGard Data Systems Inc. in its sale to various private equity firms and Tower Automotive, Inc. on its Chapter 11 bankruptcy reorganization.

In our Asset Management business, our average AUM for the first quarter of 2005 was \$86 billion, representing a 7% increase in comparison to the average AUM of \$80 billion during 2004. In the first quarter of 2005 our management fee net revenue increased by 6% as compared to the corresponding quarter in 2004. Including incentive fees earned in the first quarter of 2005, our Asset Management net revenue increased 10% as compared to the corresponding quarter in 2004.

The revenue data for the first quarter of 2005 set forth above is preliminary in nature and actual revenue for such quarter may be different. Our actual results of operations for the quarter ended March 31, 2005 will be included in a subsequent filing by us with the SEC.

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Key Financial Measures and Indicators

Net Revenue

The majority of our Financial Advisory net revenue is earned from the successful completion of mergers, acquisitions, restructurings or similar transactions. In some client engagements, often those involving financially distressed companies, revenue is earned in the form of retainers and similar fees that are contractually agreed upon with each client for each assignment and are not necessarily linked to the completion of a transaction. In addition, we also earn fees from providing strategic advice to a client, with such fees not being dependent on a specific transaction. Our Financial Advisory segment also earns revenue from public and private securities offerings in conjunction with activities of the Capital Markets and Other segment. In general, such fees are shared equally between our Financial Advisory and Capital Markets and Other segments. Following this offering, we intend to have an arrangement with LFCM Holdings under which the separated Capital Markets business will continue to distribute securities in public offerings originated by our Financial Advisory business in a manner intended to be similar to our practice prior to this offering. The main driver of Financial Advisory net revenue is overall M&A and restructuring volume, particularly in the industries and geographic markets in which we focus.

Our Asset Management segment includes our LAM, LFG and merchant banking operations. Asset Management net revenue is derived from fees for investment management and advisory services provided to institutional and private clients. The main driver of Asset Management net revenue is the level of AUM, which is influenced in large part by our investment performance and by our ability to successfully attract and retain assets, as well as the broader performance of the global equity markets and, to a lesser extent, fixed income markets. As a result, fluctuations in financial markets and client asset inflows and outflows have a direct effect on Asset Management net revenue and operating income. Fees vary with the type of assets managed, with higher fees earned on actively managed equity assets, alternative investments (such as hedge funds) and merchant banking products, and lower fees earned on fixed income and cash management products. We also earn performance-based incentive fees on some investment products, such as hedge funds, merchant banking funds and other investment products. Incentive fees on hedge funds are typically calculated based on a specified percentage of a fund's net appreciation during a fiscal period and can be subject to loss carry-forward provisions in which losses incurred in the current period are applied against future period net appreciation. Incentive fees on merchant banking funds also may be earned in the form of a carried interest when profits from merchant banking investments exceed a specified threshold. Lazard Group's Asset Management net revenue during the years ended December 31, 2002 through 2004 demonstrate the volatility that incentive fees have on total net revenue. See Business Segments Asset Management Asset Management Results of Operations.

Capital Markets and Other net revenue largely consists of primary revenue earned from underwriting fees from securities offerings and secondary revenue earned in the form of commissions and trading profits from principal transactions in Lazard Group's equity, fixed income and convertibles businesses. Since Lazard Group's January 7, 2004 acquisition of the assets of Panmure Gordon, Lazard Group also has earned underwriting and other fee revenue from corporate broking in the U.K. Lazard Group also earns fund management fees and, if applicable, carried interest incentive fees related to merchant banking funds managed as part of this segment. Such carried interest incentive fees are earned when profits from merchant banking investments exceed a specified threshold. In addition, Lazard Group generates investment income and net interest income principally from long-term investments, cash balances and securities financing transactions. In connection with the separation, Lazard Group will transfer the Capital Markets and Other segment to LFCM Holdings.

Corporate net revenue consists primarily of investment income generated from long-term investments, including principal investments that Lazard Group has made in merchant banking and alternative investment funds managed by our Asset Management segment, net interest income

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generated by LFB, interest income related to cash and marketable investments and interest expense related to outstanding borrowings. Following this offering, interest expense related to the additional financing transactions will be accounted for as part of Corporate as well. Corporate net revenue can fluctuate due to mark-to-market adjustments on long-term and marketable investments, changes in interest rate spreads earned by LFB and changes in the levels of our cash, marketable investments, long-term investments and indebtedness. Although Corporate net revenue represented 1% or less of Lazard Group's net revenue in each of the years 2002, 2003 and 2004, total assets in this segment represented 40% of Lazard Group's consolidated total assets as of December 31, 2004 (or 69% excluding the Capital Markets and Other segment), principally attributable to the relatively significant amounts of assets associated with LFB, and, to a lesser extent, cash, marketable investments and long-term investment balances.

We expect to experience significant fluctuations in net revenue and operating income during the course of any given year. These fluctuations arise because a significant portion of our Financial Advisory net revenue is earned upon the successful completion of a transaction or financial restructuring, the timing of which is uncertain and is not subject to our control. Our Asset Management net revenue is also subject to periodic fluctuations. Asset Management fees are generally based on AUM measured as of the end of a quarter or month, and an increase or reduction in AUM at such dates, due to market price fluctuations, currency fluctuations, net client asset flows or otherwise, will result in a corresponding increase or decrease in management fees. In addition, incentive fees earned on AUM are generally not recorded until the fourth quarter of our fiscal year, when potential uncertainties regarding the ultimate realizable amounts have been determined.

Operating Expenses

The majority of our operating expenses relate to employee compensation and benefits. As a limited liability company, payments for services rendered by the majority of Lazard Group's managing directors are accounted for as distributions of members' capital. In addition, subsequent to January 1, 2003, payments for services rendered by managing directors of LAM (and employee members of LAM) have been accounted for as minority interest expense. See *Minority Interest*. As a result, our employee compensation and benefits expense and operating income have not reflected most payments for services rendered by our managing directors. Following this offering, we will include all payments for services rendered by our managing directors, including the managing directors of LAM, in employee compensation and benefits expense.

The balance of our operating expenses is referred to below as *non-compensation expense*, which includes costs for premises and occupancy, professional fees, travel and entertainment, communications and information services, equipment, depreciation and amortization and other expenses.

The historical levels of operating expenses set forth in *Consolidated Results of Operations* do not reflect the added costs we expect to incur as a result of this offering. We expect that we will incur additional expenses for, among other things, directors fees, SEC reporting and compliance, investor relations, legal, accounting and other costs associated with being a public company.

Provision for Income Taxes

Lazard Group has historically operated in the U.S. as a limited liability company that was treated as a partnership for U.S. federal income tax purposes. As a result, Lazard Group's income has not been subject to U.S. federal income taxes. Taxes related to income earned by partnerships represent obligations of the individual partners. Outside the U.S., Lazard Group historically has

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operated principally through corporations and has been subject to local income taxes. Income taxes shown on Lazard Group's historical consolidated statements of income are attributable to taxes incurred in non-U.S. entities and to UBT attributable to Lazard Group's operations apportioned to New York City.

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Following this offering Lazard Group will continue to operate in the U.S. as a limited liability company treated as a partnership for U.S. federal income tax purposes and remain subject to local income taxes outside the U.S. and to UBT. In addition, Lazard will be subject to additional income taxes which will be reflected in our consolidated financial statements as described in Note (f) in the Unaudited Pro Forma Financial Information Notes to Unaudited Pro Forma Condensed Consolidated Statement of Income.

Minority Interest

Minority interest consists of a number of components.

On January 1, 2003, Lazard Group contributed net assets relating to the majority of its asset management business to form LAM, a subsidiary of Lazard Group. Upon formation of LAM, certain members of Lazard Group (including all the managing directors of LAM) who provide services to LAM contributed capital to LAM and ceased being members of Lazard Group. Following the formation of LAM, these capital interests have been included in minority interest on Lazard Group's consolidated statement of financial condition. In connection with this contribution, the LAM managing directors and other key LAM employees were granted equity units in LAM. Commencing in 2003, payments for services rendered by these individuals were accounted for as minority interest expense in Lazard Group's consolidated statement of income. The substantial majority of such payments related to services rendered by LAM managing directors, which, in prior years, had been accounted for as distributions to members, therefore, was not reported in prior years' consolidated statements of income. The remainder of such payments, which related to compensation of employee members of LAM, was recorded as compensation and benefits expense in prior years' consolidated statements of income. Following this offering, we will include all payments for services rendered by our managing directors, including our LAM managing directors, as well as employee members of LAM, in employee compensation and benefits expense.

The LAM equity units entitle holders to payments in connection with selected fundamental transactions affecting Lazard Group or LAM, including a dissolution or sale of all or substantially all of the assets of Lazard Group or LAM, a merger of or sale of all of the interests in LAM whereby Lazard Group ceases to own a majority of LAM or have the right to appoint a majority of the board of directors of LAM, or a non-ordinary course sale of assets by LAM that exceeds \$50 million in value. These persons will not receive LAZ-MD Holdings exchangeable interests in connection with the separation and recapitalization transactions, but will retain their existing equity units in LAM. As a general matter, in connection with a fundamental transaction that triggers the LAM equity units, following the completion of this offering the holders of the LAM equity units would be entitled in the aggregate to 23.40% of the net proceeds or imputed valuation of LAM in such transaction after deductions for payment of creditors of LAM and the return of LAM capital. As of December 31, 2004, LAM's capital for these purposes totaled approximately \$70 million, of which approximately \$18 million was owned by LAM managing directors and employee members, with the remainder owned by Lazard Group. These LAM equity units are not entitled to share in the operating results of LAM. A separate class of interests in LAM, which we refer to in this prospectus as LAM profit units, is entitled to the ordinary profit and losses of LAM, all of which are owned by Lazard Group. Accordingly, in the absence of a fundamental transaction that triggers the LAM equity units, all of LAM's net income is allocable to Lazard Group. We have no current intention to cause or otherwise trigger a fundamental transaction that would give rise to payment obligations to the holders of interests in LAM.

On and after January 1, 2006, the board of directors of LAM (a majority of which is appointed by Lazard Group) may, in its discretion, grant LAM equity interests that include profit rights to managing directors of, and other persons providing services to, LAM, as a portion of their ongoing compensation. If granted, these equity interests would be subject to specified vesting conditions, with 50% of the equity interests vesting on the second anniversary of the date of issuance and the remaining 50% of the equity interests vesting on the third anniversary of the date of issuance.

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Also included in minority interest in our consolidated financial statements are minority interests in various LAM-related general partnership interests. Certain of these LAM-related general partnerships compensate LAM professionals directly. As such, incentive fees that would have otherwise been paid to Lazard Group are retained by the general partnerships for the purpose of compensating the LAM professionals. In Lazard Group's consolidation of the general partnerships, the LAM professionals' compensation is reflected in minority interest, with an equivalent amount in Lazard Group's net revenue. Following this offering we will include such LAM professionals' share of the incentive fees in employee compensation and benefits expense.

In September 2002, Lazard Group and Intesa announced their agreement to form a strategic alliance. Under the terms of this alliance, Intesa became a 40% partner in Lazard Group's business interests in Italy in January 2003. As a result, commencing in 2003, Lazard Group has recorded minority interest to reflect Intesa's economic interest in the Italian alliance.

As of December 31, 2004, in accordance with the adoption of Financial Interpretation No. 46R for Consolidation of Certain Variable Interest Entities (FIN 46R), referred to as VIEs, Lazard Group consolidated certain VIEs in which it holds a variable interest and where Lazard Group is the primary beneficiary. Those VIEs include Lazard Group sponsored venture capital investment vehicles established in connection with our compensation plans. Accordingly, Lazard Group's consolidated financial statements at December 31, 2004 reflect minority interests associated with these VIEs. These VIEs will be included with the separated businesses and, as such, will not be reflected in our consolidated financial statements following this offering. To the extent that we expand our merchant banking activities in the future, we expect that we may be required to consolidate additional VIEs related to such activities. The managing directors of our French business hold nominal equity interests in several of our French subsidiaries, totaling less than 0.1% of the equity interests in each such subsidiary. Accordingly, as currently constituted, these managing directors may have a role in the procedures at these subsidiaries, including the right to vote on the appointment or removal of managing directors, mergers and alterations to key provisions of their by-laws.

The table below summarizes our minority interest expense and liability in Lazard Group's consolidated financial statements:

	Minority Interest Expense		
	Year Ended December 31,		
	2002	2003	2004
	(\$ in thousands)		
LAM Members	\$	\$ 61,757	\$ 73,311
LAM General Partnerships	38,891	16,975	8,971
Italian Strategic Alliance		15,914	3,741
Merchant Banking General Partnership Interests			367
Other	1,124	(96)	1,530
Total	\$ 40,015	\$ 94,550	\$ 87,920

Minority Interest Liability**As of December 31,**

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	<u>2003</u>	<u>2004</u>
	(\$ in thousands)	
LAM Members	\$ 66,599	\$ 57,351
LAM General Partnerships	35,634	43,186
Italian Strategic Alliance	65,889	51,902
Merchant Banking General Partnership Interests		20,655
Other	956	1,626
	<u> </u>	<u> </u>
Total	<u>\$ 169,078</u>	<u>\$ 174,720</u>

Table of Contents**Net Income Allocable to Members**

Historically, payments for services rendered by our managing directors have been accounted for as distributions from members capital, or as minority interest expense in the case of payments to LAM managing directors and certain key LAM employee members during 2003 and 2004, rather than as compensation and benefits expense. As a result, our compensation and benefits expense and net income allocable to members have not reflected most payments for services rendered by our managing directors.

During 2002, 2003 and 2004, following the hiring of new senior management, Lazard Group invested significant amounts in the recruitment and retention of senior professionals in an effort to reinvest in the intellectual capital of Lazard Group's business. As a result, while payments for services rendered by our managing directors generally did not historically exceed net income allocable to members in any given year, in 2002, 2003 and 2004, we made distributions to our managing directors that exceeded our net income allocable to members.

The table below illustrates what our compensation and benefits expense would have been on an adjusted basis during 2004, had the portion of distributions to members which represent payments for services rendered and our minority interest expense related to LAM been accounted for as compensation and benefits expense, as adjusted to exclude the impact of the separated businesses. The table further illustrates the relationship between our adjusted compensation and benefits expense and our operating revenue. We define operating revenue to equal consolidated total gross revenue less (i) total gross revenue attributable to the separated businesses and (ii) interest expense related to LFB, our Paris-based banking affiliate. We deduct the interest expense incurred by LFB from our definition of operating revenue because LFB is a financing business and we consider its interest expense to be a cost directly related to the conduct of its business. The remaining interest expense, however, relates to our decisions regarding the capital structure of Lazard Group as a whole.

	Year Ended December 31, 2004
	(\$ in thousands)
Adjusted employee compensation and benefits	
Historical	\$ 573,779
Add (deduct):	
Amount related to separated businesses	(109,030)
Portion of distributions representing payments for services rendered by managing directors (excluding LAM managing directors)	280,317
Portion of distributions representing payments included in minority interest for services rendered by LAM managing directors and employee members of LAM	73,965
	<hr/>
Adjusted employee compensation and benefits	\$ 819,031
	<hr/>
Operating revenue	
Historical total revenue	\$ 1,328,180
Add (deduct):	
Amount related to separated businesses	(202,424)
LFB Interest expense	(17,843)
	<hr/>
Operating revenue	\$ 1,107,913
	<hr/>
Adjusted compensation expense-to-operating revenue ratio	73.9%

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Following the completion of this offering, our policy will be that our employee compensation and benefits expense, including that payable to our managing directors, will not exceed 57.5% of operating revenue each year (although we retain the ability to change this policy in the future). Our managing directors have been informed of this new policy. The new retention agreements with our managing directors generally provide for a fixed salary and discretionary bonus, which may include an equity-based compensation component. The following table summarizes the reductions required to achieve the target ratio:

	Year Ended December 31, 2004
	(\$ in thousands)
Target employee compensation and benefits	
Adjusted employee compensation and benefits, as above	\$ 819,031
Reductions	(181,981)
Target compensation and benefits	\$ 637,050
Target compensation expense-to-operating revenue ratio	57.5%

We intend to achieve this target primarily by reducing payments for services rendered by our managing directors, while continuing to maintain financial packages for our managing directors that we believe are competitive in the market place. All of the expense reductions required to achieve this target ratio could be achieved through compensation reductions under our new retention agreements that generally provide for salary and discretionary bonuses, which agreements were effective upon execution. However, we believe that other considerations will assist us in minimizing the degree of compensation reductions required to achieve our employment compensation and benefit expense target, including expense reductions of approximately \$100 million over the next year related to the following: the expiration of guaranteed payments and other contractual agreements with our managing directors; the expiration of contractual payouts to the founders of LAM; planned reductions associated with the restructuring of the Lazard Group pension plans (reflecting a change from defined benefit plans to defined contribution plans) and post-retirement medical plans and cost savings resulting from a reassessment of our staffing needs. The expiration of contractual agreements requiring payments to our managing directors for services performed and to the founders of LAM will reduce expenses by approximately \$55 million. The planned expense reductions associated with the restructuring of the Lazard Group pension and post-retirement medical plans and the cost savings from a reassessment of our staffing needs are expected to be approximately \$45 million. To the extent required, any reductions, over and above these approximately \$100 million of reductions, necessary to achieve our target employee compensation expense-to-operating revenue ratio of 57.5% will be accomplished by reducing other compensation expenses, including the discretionary bonuses of our managing directors, as generally permitted by the new retention agreements.

While we are implementing steps that we believe will reduce our compensation expense-to-operating revenue ratio to 57.5%, there can be no guarantee that this will be achieved or that our policy will not change in the future. Increased competition for senior professionals, changes in the financial markets generally or other factors could prevent us from reaching this objective.

Results of Operations

Our consolidated financial statements are presented in U.S. dollars. Many of our non-U.S. subsidiaries have a functional currency (*i.e.*, the currency in which operational activities are primarily conducted) that is other than the U.S. dollar, generally the currency of the country in which the subsidiaries are domiciled. Such subsidiaries' assets and liabilities are translated into U.S. dollars at year end exchange rates, while revenue and expenses are translated at average exchange rates during the year. Adjustments that

result from translating amounts from a subsidiary's functional

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currency are reported as a component of members' equity. Foreign currency remeasurement gains and losses on transactions in non-functional currencies are included in the consolidated statements of income.

The consolidated results of operations for the years ended December 31, 2002 through December 31, 2004 are set forth below:

	Year Ended December 31,		
	2002	2003	2004
	(\$ in thousands)		
Net Revenue:			
Financial Advisory	\$ 532,896	\$ 690,967	\$ 655,200
Asset Management	454,683	350,348	417,166
Capital Markets and Other(a)	174,309	135,534	188,100
Corporate	4,391	6,535	13,839
Net revenue	1,166,279	1,183,384	1,274,305
Operating Expenses:			
Employee compensation and benefits	469,037	481,212	573,779
Non-compensation expense	321,197	312,818	342,764
Total operating expenses	790,234	794,030	916,543
Operating Income	376,045	389,354	357,762
Provision for income taxes	38,583	44,421	28,375
Income Allocable to Members Before Minority Interest and Extraordinary Gain	337,462	344,933	329,387
Minority Interest	40,015	94,550	87,920
Income Allocable to Members Before Extraordinary Gain	297,447	250,383	241,467
Extraordinary gain			5,507
Net Income Allocable to Members	\$ 297,447	\$ 250,383	\$ 246,974

(a) As described above, Lazard Group will separate its Capital Markets and Other business segment in connection with the separation and recapitalization.

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The key ratios, statistics and headcount information for the years ended December 31, 2002 through December 31, 2004 are set forth below:

	Year Ended December 31,		
	2002	2003	2004
	(\$ in thousands)		
As a % of Net Revenue:			
Financial Advisory	46%	58%	51%
Asset Management	39%	30%	33%
Capital Markets and Other(a)	15%	11%	15%
Corporate	0%	1%	1%
Net Revenue	100%	100%	100%
As a % of Net Revenue:			
Operating Income	32%	33%	28%
Headcount, as of the end of each period, prior to the separation:			
Managing Directors:			
Financial Advisory	103	118	131
Asset Management	19	24	35
Capital Markets and Other(a)	20	22	22
Corporate (including limited managing directors)	18	18	19
All Other Employees	2,499	2,374	2,377
Total	2,659	2,556	2,584
Headcount, as of the end of each period, after the separation:			
Managing Directors:			
Financial Advisory	103	118	131
Asset Management	19	24	35
Corporate (including limited managing directors)	18	18	19
All Other Employees	2,323	2,206	2,154
Total	2,463	2,366	2,339

(a) As described above, Lazard Group will separate its Capital Markets and Other business segment in connection with the separation and recapitalization.

Consolidated Results of Operations

A discussion of our consolidated results of operations is set forth below, followed by a more detailed discussion of business segment results.

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2004 versus 2003. Net revenue was \$1,274 million in 2004, up \$91 million, or 8%, versus net revenue of \$1,183 million for 2003. During 2004, M&A net revenue increased by 15%, offset by a reduction in Financial Restructuring net revenue of 61%, while Asset Management net revenue increased by 19% and Capital Markets and Other net revenue increased by 39%.

Employee compensation and benefits expense was \$574 million for 2004, an increase of \$93 million, or 19%, versus expense of \$481 million in 2003. The expense increase was primarily due to increases in performance-based bonus accruals, new service groups operating for the full year in 2004, and increased pension costs in the U.S. and Europe. Employee headcount as of December 31, 2004 was at approximately the same level as of December 31, 2003, however, the composition changed with decreases in headcount in the Financial Advisory and Corporate segments being offset by increased headcount in the Asset Management and Capital Markets and Other segments. For further information with respect to employee compensation and benefits expense after this offering, see Unaudited Pro Forma Condensed Consolidated Statement of Financial Condition Notes to Unaudited Pro Forma Condensed Consolidated Statement of Financial Condition.

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Non-compensation expense was \$343 million for 2004, an increase of \$30 million, or 10%, versus expense of \$313 million for 2003. Premises and occupancy expenses were \$97 million, a decrease of \$2 million, or 2%, due to lower costs associated with abandoned space and duplicate rent in London, almost entirely offset by higher occupancy costs in the U.S. and Europe for offices that were not operating for the full year in 2003. Professional fees were \$74 million, an increase of \$18 million, or 31%, versus \$56 million for 2003 primarily due to costs incurred in connection with this offering, payments to former employees as a result of carried interest-based incentive fees on real estate-related merchant banking funds, consulting fees relating to our recently initiated merchant banking activities in the U.K. and integration costs associated with the acquisition of the assets of Panmure Gordon. Travel and entertainment expenses were \$51 million, an increase of \$5 million, or 11%, versus \$46 million for 2003, due to increased business development efforts. Communication and information services and equipment costs, in the aggregate, were \$65 million, an increase of \$9 million, or 17%, versus \$56 million for 2003 due to increased software maintenance expense and additional technology related spending in certain offices in the U.S. and Europe. Other expenses were \$57 million, essentially flat versus 2003.

Operating income was \$358 million for 2004, a decrease of \$31 million, or 8%, versus operating income of \$389 million for 2003. Operating income as a percentage of net revenue was 28% for 2004 versus 33% for 2003.

Provision for income taxes was \$28 million for 2004, a decrease of \$16 million versus \$44 million for 2003, due to decreased profitability in locations that are subject to corporate income taxes.

Minority interest was \$88 million for 2004, a decrease of \$7 million versus \$95 million for 2003, principally due to a decrease in minority interest associated with the Italian strategic alliance, offset by an increase in performance-based compensation for LAM members. See [Minority Interest](#).

Income allocable to members before extraordinary gain was \$241 million for 2004, a decrease of \$9 million, or 4%, versus \$250 million in 2003.

An extraordinary gain of approximately \$6 million was recorded in January 2004 related to the acquisition of the assets of Panmure Gordon and represented the excess of the fair value of the net assets acquired over the purchase price.

2003 versus 2002. Net revenue was \$1,183 million in 2003, an increase of \$17 million, or 1%, versus net revenue of \$1,166 million in 2002. During 2003, M&A net revenue increased by 7% and Financial Restructuring net revenue increased by 96%, with these increases principally offset by decreases in Asset Management net revenue of 23% and Capital Markets and Other net revenue of 22%.

Employee compensation and benefits expense was \$481 million in 2003, an increase of \$12 million or 3% versus expense of \$469 million during 2002. The increase in expense in 2003 was principally due to investments made in our Financial Advisory segment, including new service groups and increases in U.K. pension costs. These increases were partially offset by savings related to headcount reductions in Asset Management, and by the reclassification to minority interest expense of compensation for employee members of LAM whose compensation, prior to 2003, had previously been reported in employee compensation and benefits expense. Employee headcount (excluding managing directors) at December 31, 2003 was 2,374, a net reduction of 125 versus December 31, 2002.

Non-compensation expense was \$313 million in 2003, a decrease of \$8 million, or 3%, versus expense of \$321 million in 2002. Premises and occupancy expenses were \$98 million, an increase of \$16 million, or 20%, versus \$82 million in 2002, primarily due to increases in rent in London and

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occupancy cost for our Paris facilities. Professional fees were \$56 million, a decrease of \$12 million, or 17%, versus \$68 million in 2002 due to higher professional fees in 2002 relating to (i) dissolving an Asset Management partnership arrangement, (ii) unwinding of an investment in a derivatives business venture and (iii) reorganizing the LAM capital structure. Travel and entertainment expenses were \$46 million, an increase of \$5 million, or 11%, versus \$41 million in 2002 due to increased business development efforts. Communication and information services and equipment costs in the aggregate were \$56 million, an increase of \$5 million, or 10%, versus \$51 million in 2002 with no one business activity accounting for a significant piece of the increase. Other expenses were \$57 million, a decrease of \$22 million, or 28%, versus \$79 million in 2002, primarily due to one-time costs incurred in 2002 relating to dissolving the aforementioned Asset Management partnership arrangement.

Operating income was \$389 million in 2003, an increase of \$13 million, or 4%, versus operating income of \$376 million in 2002. Operating income as a percentage of net revenue was 33% in 2003 versus 32% in 2002.

Provision for income taxes was \$44 million in 2003, an increase of \$5 million versus \$39 million in 2002, due to increased profitability in locations that are subject to corporate income taxes.

Minority interest was \$95 million in 2003, an increase of \$55 million versus \$40 million in 2002. Beginning in 2003, compensation for services rendered by LAM managing directors and employee members of LAM was recorded in minority interest. In addition, Lazard Group's strategic alliance in Italy with Intesa also commenced in 2003. These two items, in the aggregate, accounted for a \$78 million increase in minority interest expense. Partially offsetting these increases was a \$22 million decline in minority interest expense associated with the consolidation of LAM-related general partnerships consistent with the decline in related incentive fee revenue. See [Minority Interest](#).

Net income allocable to members was \$250 million in 2003, a decrease of \$47 million, or 16%, versus net income allocable to members of \$297 million in 2002.

Business Segments

The following data discusses net revenue and operating income by business segment. The operating results exclude a discussion of Corporate, due to its relatively minor contribution to operating results. Each segment's operating expenses include (i) employee compensation and benefits expenses that are incurred directly in support of the businesses and (ii) other operating expenses, which include directly incurred expenses for premises and occupancy, professional fees, travel and entertainment, communications and information services, equipment, and indirect support costs (including compensation and other operating expenses related thereto) for administrative services. Such administrative services include, but are not limited to, accounting, tax, legal, facilities management and senior management activities. Such support costs are allocated to the relevant segments based on various statistical drivers such as, among other items, headcount, square footage and transactional volume.

Table of Contents**Financial Advisory**

The following table summarizes the operating results of the Financial Advisory segment:

	Year Ended December 31,		
	2002	2003	2004
	(\$ in thousands)		
M&A	\$ 393,082	\$ 419,967	\$ 481,726
Financial Restructuring	124,800	244,600	96,100
Corporate Finance and Other	15,014	26,400	77,374
Net Revenue	532,896	690,967	655,200
Direct Employee Compensation and Benefits	171,270	189,823	230,340
Other Operating Expenses(a)	159,532	190,427	213,342
Total Operating Expenses	330,802	380,250	443,682
Operating Income	\$ 202,094	\$ 310,717	\$ 211,518
Operating Income as a Percentage of Net Revenue	38%	45%	32%
Headcount(b):			
Managing Directors	103	118	131
Other Employees	820	848	832
Total	923	966	963

(a) Includes indirect support costs (including compensation and other operating expenses related thereto).

(b) Excludes headcount related to support functions. Such headcount is included in the Corporate headcount.

Net revenue trends in Financial Advisory for M&A and Financial Restructuring generally are correlated to the volume of completed industry-wide mergers and acquisitions activity and restructurings occurring subsequent to corporate debt defaults, respectively. However, deviations from this relationship can occur in any given year for a number of reasons. For instance, material variances in the level of mergers and acquisitions activity in a particular geography where we have significant market share or the number of our advisory engagements with respect to larger-sized transactions can cause our results to diverge from industry-wide activity. Lazard Group client statistics and global industry statistics are set forth below:

	Year Ended December 31,		
	2002	2003	2004

Lazard Statistics:

Number of Clients:

Total	383	370	435
With Fees Greater than \$1 million	136	137	136

Percentage of Total Fees from Top 10 Clients	26%	30%	25%
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Number of M&A Transactions Completed Greater than \$1 billion	21	29	30
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Industry Statistics (\$ in billions):

Volume of Completed M&A Transactions:

Global	\$ 1,352	\$ 1,220	\$ 1,574
Trans-Atlantic	102	102	104
Global Corporate Debt Defaults	164	34	16

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The geographical distribution of Financial Advisory net revenue is set forth below in percentage terms. The offices that generate our Financial Advisory net revenue are located in North America, Europe (principally in the U.K., France, Italy and Germany) and the rest of the world (principally in Asia).

	Year Ended December 31,		
	2002	2003	2004
North America	41%	49%	45%
Europe	57%	50%	54%
Rest of World	2%	1%	1%
Total	100%	100%	100%

Lazard Group's managing directors and many of its professionals have significant experience, and many of them are able to use this experience to advise on both mergers and acquisitions and restructuring transactions, depending on our clients' needs. This flexibility allows Lazard Group to better match its professional staff with the counter-cyclical business cycles of mergers and acquisitions and financial restructurings. While Lazard Group measures revenue by practice area, Lazard Group does not separately measure the separate costs or profitability of mergers and acquisitions services as compared to financial restructuring services. Accordingly, Lazard Group measures performance in its Financial Advisory segment based on overall segment net revenue and operating income margins.

Financial Advisory Results of Operations

2004 versus 2003. In 2004, M&A net revenue increased by \$62 million, or 15%, driven by the improved environment for mergers and acquisitions activity. The increase in M&A net revenue was offset by a \$149 million, or 61%, decrease in Financial Restructuring net revenue versus 2003, consistent with the decline in global corporate debt defaults that began in 2003. Other Financial Advisory net revenue increased by \$51 million primarily due to net revenue generated from a new service that raises capital for private equity funds that commenced operations in 2003, as well as increased underwriting net revenue in corporate finance activities.

Clients with whom Lazard Group transacted significant business in 2004 included Air Liquide, Bank One, Fisher Scientific, Intesa, Interbrew, MG Technologies, National Energy & Gas, Pfizer, Pirelli, Resolution Life, UCB and Veolia Environment.

Financial Advisory net revenue in 2004 was earned from 435 clients, compared to 370 in 2003. Advisory fees of \$1 million or more were earned from 136 of our clients for 2004, compared to 137 in 2003. In 2004, the ten largest fee-paying clients constituted 25% of Financial Advisory segment net revenue. There were no clients in 2004 that individually constituted more than 10% of Financial Advisory segment net revenue.

Operating expenses were \$444 million for 2004, an increase of \$64 million, or 17%, versus operating expenses of \$380 million in 2003. Direct employee compensation and benefits expense increased by \$41 million, or 21%. While changes in employee

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compensation are generally correlated to changes in employee headcount, the timing and composition of such headcount changes may have a direct impact on the level of any given year's compensation and benefit expense. More specifically, in 2004, while total employee headcount in the Financial Advisory segment decreased, employee compensation and benefits expense increased primarily due to an increase in headcount in certain of our offices and in new offices or new service groups that were partially or not operational in 2003, and increased pension costs in the U.S. and Europe, partially offset by a \$4 million decrease related to the

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termination of a post-retirement medical plan in Europe. Other operating expenses increased by \$23 million, or 12%, due to increases in premises and occupancy expense of \$7 million, travel and entertainment expense of \$4 million, communications, information services and equipment of \$2 million and all other expenses, which in the aggregate increased by \$10 million. Premises and occupancy expense increased due to higher occupancy costs in Europe as well as in the U.S. for offices that were not operating for the full year in 2003. Travel and entertainment expense increased due to business development efforts. Communications, information services and equipment expense increased due to additional technology and equipment expense in certain offices in the U.S. and Europe and technology upgrades in the U.S.

Financial Advisory operating income was \$212 million for 2004, a decrease of \$99 million, or 32%, versus operating income of \$311 million for 2003. Operating income as a percentage of segment net revenue was 32% for 2004 versus 45% in 2003.

2003 versus 2002. In 2003, Financial Restructuring net revenue increased by \$120 million, or 96% versus 2002, as restructuring activity peaked following the rise in corporate debt defaults during the preceding three years. In addition, the growth in net revenue was driven by fees earned on a number of unusually large restructuring transactions that were completed in 2003. During the same period, M&A net revenue increased by \$27 million, or 7%, versus 2002, despite an industry-wide decline in global completed M&A activity. The improvement in our M&A net revenue was driven by our increased involvement globally in mergers and acquisitions transactions valued in excess of \$1 billion. Such transactions generally earn higher fees per transaction, which is reflected in the higher proportion in 2003 of our net revenue attributable to our ten largest clients. In addition, net revenue generated by our operations in Italy, which held a leading market position, grew substantially on improved mergers and acquisitions activity in the region. Other Financial Advisory net revenue increased by \$11 million due to revenue generated from new service groups that commenced operations in 2003, increased underwriting activity and increases in other miscellaneous income.

Clients with whom Lazard Group transacted significant business in 2003 included Canary Wharf Group, Charter Communications, Conseco, Corus Group, Edison International, Fiat, Intesa, Microsoft, Pfizer, Pirelli Group, Sierra Pacific Resources, Vivendi Universal, WorldCom and Xcel Energy.

Financial Advisory net revenue in 2003 was earned from 370 clients, compared to 383 in 2002. Advisory fees of \$1 million or more were earned from 137 of our clients in 2003, compared to 136 in 2002. In 2003, the ten largest fee-paying clients constituted 30% of Financial Advisory segment net revenue. There were no clients in 2003 that individually constituted more than 10% of Financial Advisory segment net revenue.

Operating expenses were \$380 million for 2003, an increase of \$49 million, or 15%, versus operating expenses of \$331 million in 2002. Direct employee compensation and benefits expense increased by \$19 million, or 11%, primarily due to increased revenue and increased headcount in select offices and new service groups. Other operating expenses increased by \$31 million, or 19%, due to increases in premises and occupancy expense of \$9 million, or 49%, travel and entertainment expense of \$4 million, or 26%, and support costs of \$18 million, or 28%. Premises and occupancy expense increased principally due to higher occupancy cost in London and Paris, and new offices in Houston and Los Angeles. Travel and entertainment expense increased across all offices primarily due to increased business development efforts and an increase in managing director headcount compared to 2002.

Financial Advisory operating income was \$311 million in 2003, an increase of \$109 million, or 54%, versus operating income of \$202 million in 2002. Operating income as a percentage of segment net revenue was 45% in 2003 versus 38% in 2002.

Table of Contents**Asset Management**

The following table shows the composition of AUM mandates for our Asset Management segment:

	As of December 31,		
	2002	2003	2004
	(\$ in millions)		
AUM			
International Equities	\$ 23,141	\$ 34,389	\$ 39,267
Global Equities	12,806	15,922	17,762
U.S. Equities	9,878	12,236	12,716
Total Equities	45,825	62,547	69,745
International Fixed Income	4,164	5,174	6,226
Global Fixed Income	1,723	1,932	2,008
U.S. Fixed Income	4,850	4,393	2,970
Total Fixed Income	10,737	11,499	11,204
Alternative Investments	4,094	1,370	2,800
Merchant Banking	272	411	551
Cash Management	2,757	2,544	2,135
Total AUM	\$ 63,685	\$ 78,371	\$ 86,435

The following is a summary of changes in Asset Management's AUM and average AUM during the years ended December 31, 2002, 2003 and 2004. Average AUM is based on an average of quarterly ending balances for the respective periods.

	Year Ended December 31,		
	2002	2003	2004
	(\$ in millions)		
AUM Beginning of Year	\$ 73,108	\$ 63,685	\$ 78,371
Net Flows	(3,573)	(1,111)	(3,489)
Market Appreciation (Depreciation)	(7,215)	14,457	10,793
Foreign Currency Adjustments	1,365	1,340	760
AUM End of Year	\$ 63,685	\$ 78,371	\$ 86,435
Average AUM	\$ 68,356	\$ 66,321	\$ 80,261



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The following table summarizes the operating results of the Asset Management segment:

	Year Ended December 31,		
	2002	2003	2004
	(\$ in thousands)		
Management and Other Fees	\$ 381,256	\$ 312,123	\$ 389,812
Incentive Fees	73,427	38,225	27,354
Net Revenue	454,683	350,348	417,166
Direct Employee Compensation and Benefits	131,601	108,701	134,097
Other Operating Expenses(a)	167,016	131,187	147,932
Total Operating Expenses	298,617	239,888	282,029
Operating Income	\$ 156,066	\$ 110,460	\$ 135,137
Headcount(b):			
Managing Directors	19	24	35
Other Employees	661	571	581
Total	680	595	616

(a) Includes indirect support costs (including compensation and other operating expenses related thereto).

(b) Excludes headcount related to support functions. Such headcount is included in the Corporate headcount.

The geographical distribution of Asset Management net revenue is set forth below in percentage terms:

	Year Ended December 31,		
	2002	2003	2004
North America	72%	63%	59%
Europe	22%	30%	33%
Rest of World	6%	7%	8%
Total	100%	100%	100%

Asset Management Results of Operations

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2004 versus 2003. Asset Management net revenue was \$417 million in 2004, an increase of \$67 million, or 19%, versus net revenue of \$350 million in 2003. Management and Other Fees in 2004 were \$390 million, up \$78 million, or 25%, versus 2003. Incentive fees earned in 2004 were \$27 million, a decrease of \$11 million versus \$38 million in 2003, due to lower performance in certain investment funds.

For 2004, average AUM increased by approximately \$13.9 billion, or 21%, versus 2003. Management and Other Fees grew at a faster rate than average AUM primarily due to a greater percentage of AUM concentrated in equity and alternative investments versus fixed income products (84% of total AUM in 2004 as compared to 82% in 2003), which generally earn higher management fees.

AUM as of December 31, 2004 was \$86.4 billion, an increase of \$8 billion, or 10%, versus AUM of \$78.4 billion as of December 31, 2003. During 2004, the increase in AUM was primarily due to market appreciation of \$10.8 billion that more than offset net outflows of \$3.5 billion. Net outflows were principally related to performance related withdrawals, asset allocation decisions and corporate restructurings.

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Operating expenses were \$282 million in 2004, an increase of \$42 million, or 18%, versus operating expenses of \$240 million in 2003. Direct employee compensation and benefits expense increased by \$25 million, or 23%, versus 2003, primarily due to increases in performance-based bonuses relating to the increased operating results and to a lesser extent, increases in headcount to support global growth. Other operating expenses increased by \$17 million, or 13%, versus 2003 principally due to increases in premises and occupancy expense of \$3 million, or 14%, and travel and entertainment expense of \$2 million, or 20%, equipment expense of \$2 million, or 72%, and all other expenses which, in the aggregate, increased \$10 million or 10%.

Asset Management operating income was \$135 million in 2004, an increase of \$25 million, or 22%, versus operating income of \$110 million for 2003. Operating income as a percentage of segment net revenue was 32% for the 2004 versus 32% for 2003.

2003 versus 2002. Asset Management net revenue was \$350 million in 2003, a decrease of \$105 million, or 23%, from net revenue of \$455 million in 2002. Management and Other fees for 2003 were \$312 million, down \$69 million, or 18%, versus the corresponding period in 2002. Incentive fees earned in 2003 were \$38 million, \$35 million lower than in 2002. Lower average AUM, significant net outflows in alternative investments and the decline in incentive fees, resulted in a decrease in net revenue in 2003.

In 2003, average AUM decreased by \$2.0 billion, or 3%, versus 2002, primarily due to net asset outflows that occurred in early 2003. The majority of the net asset outflow occurred in the alternative investment product area due to the departure in early 2003 of a hedge fund manager and team. This outflow resulted in both reduced management fees and incentive fees in 2003. As the mix of AUM in 2003 shifted away from higher margin alternative investments, the average fees earned on AUM were lower in 2003 than in 2002. By the end of 2003, the downward trend in AUM was reversed due to significant market appreciation and an increase in net inflows of assets beginning in the second quarter, which offset the market depreciation and net outflows experienced in the first quarter.

AUM at December 31, 2003 was \$78.4 billion, up approximately \$15 billion from December 31, 2002 due almost entirely to market appreciation.

Operating expenses were \$240 million for 2003, a decrease of \$59 million, or 20%, versus operating expenses of \$299 million in 2002. Direct employee compensation and benefits expense decreased by \$23 million, or 17%, \$10 million of which related to the reporting of compensation for non-managing directors who are members of LAM. In prior years, such compensation was reported in employee compensation and benefits expense. Also contributing to the decrease was lower headcount and performance-based bonuses as a result of lower operating results in 2003. Other operating expenses decreased \$36 million, or 21%, in 2003 compared to 2002. Professional fees were \$6 million lower than in 2002 when additional expense was incurred relating to the dissolving of an Asset Management partnership arrangement and the reorganization of the LAM capital structure. Other expenses were \$30 million lower than in 2002 principally due to additional costs incurred in 2002 relating to dissolving the aforementioned Asset Management partnership arrangement and, to a lesser extent, lower support costs and equipment expenses.

Asset Management operating income was \$110 million in 2003, a decrease of \$46 million, or 29%, versus operating income of \$156 million in 2002. Operating income as a percentage of segment net revenue was 32% in 2003 versus 34% in 2002.

Table of Contents**Capital Markets and Other**

The following table summarizes the operating results of the Capital Markets and Other segment:

	Year Ended December 31,		
	2002	2003	2004
	(\$ in thousands)		
Revenue:			
Capital Markets advisory fees	\$ 3,335	\$ 1,568	\$ 10,153
Money management fees	25,753	23,272	44,951
Commissions	48,724	43,184	51,871
Trading Gains and losses-net	60,768	39,124	30,841
Underwriting	11,268	17,496	34,278
Investment gains (losses), non-trading-net	21,145	7,911	10,087
Interest Income	39,432	21,988	19,705
Other	(2,699)	(3,815)	538
Total revenue	207,726	150,728	202,424
Interest expense	(33,417)	(15,194)	(14,324)
Net Revenue	174,309	135,534	188,100
Direct Employee Compensation and Benefits	68,748	83,909	96,544
Other Operating Expenses(a)	89,663	98,286	95,927
Total Operating Expenses	158,411	182,195	192,471
Operating Income (Loss)	\$ 15,898	\$ (46,661)	\$ (4,371)
Headcount(b):			
Managing Directors	20	22	22
Other Employees	176	168	223
Total	196	190	245

(a) Includes indirect support costs (including compensation and other operating expenses related thereto).

(b) Excludes headcount related to support functions. Such headcount is included in the Corporate headcount.

Capital Markets and Other Results of Operations

The net revenue included in the Capital Markets and Other segment is related primarily to revenue earned from underwriting fees from securities offerings and secondary trading revenue earned in the form of commissions and trading profits from principal

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transactions in equity, fixed income and convertibles businesses. In addition, this segment earned underwriting and other fee revenue from corporate broking in the U.K. related to the January 2004 acquisition of the assets of Panmure Gordon. Also included in this segment are fund management fees and, if applicable, carried interest incentive fees related to merchant banking funds managed as part of this segment. Carried interest fees are earned when profits from merchant banking investments exceed a certain threshold. In addition, investment income and net interest income from long-term investments, cash balances and securities financing transactions also are included in the Capital Markets and Other segment. These capital market activities will be part of the businesses separated from the operations of Lazard Group in connection with the separation. The results of the operations of the Capital Markets and Other segment are included in Lazard Group's historical financial statements, however, after the completion of the separation, Lazard Group will no longer own the Capital Markets and Other segment and will report the segment as a discontinued operation. However, Lazard Group has an option under the business alliance agreement to acquire the merchant banking business from LFCM Holdings. See Certain Relationships and Related Transactions Relationship with LAZ-MD Holdings and LFCM Holdings Business Alliance Agreement.

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2004 versus 2003. Capital Markets and Other net revenue was \$188 million in 2004, an increase of \$52 million, or 39%, versus net revenue of \$136 million in 2003. Higher net revenue in sales and trading was the principal contributor to the increase, including net revenue of \$18 million generated from certain product areas not previously offered by Lazard Group, due to the acquisition of the assets of Panmure Gordon in January 2004. Increases in primary revenue in corporate broking, corporate bonds, convertibles and secondary revenue in equities were offset by a decrease in secondary trading in fixed income. In addition, incentive fees earned on the realization of carried interest on real estate-related merchant banking funds were \$23 million in 2004, versus \$3 million recorded in 2003.

Operating expenses were \$192 million for 2004, an increase of \$10 million, or 6%, versus operating expenses of \$182 million in 2003. Direct employee compensation and benefits expense in 2004 increased by \$13 million, or 15%, primarily due to increases in headcount associated with the acquisition of the assets of Panmure Gordon in 2004 and bonuses related to the carried interest incentive fees, partially offset by decreases in bonus accruals in certain areas that experienced declines in revenue in the 2004 period. Other operating expenses decreased by \$3 million, or 2%. Premises and occupancy costs decreased by \$15 million in 2004, principally due to reductions of \$10 million related to abandoned space in our London facilities as well as a reduction of approximately \$6 million of duplicate rent paid in 2003 that did not recur in 2004. Professional fees increased by \$16 million in 2004, primarily due to integration costs associated with the acquisition of the assets of Panmure Gordon, payments to former employees as a result of carried interest incentive fees recorded in merchant banking and consulting fees relating to our recently initiated merchant banking activities in the U.K. All other expenses in the aggregate decreased by \$4 million, principally due to lower expenses associated with the 2003 settlement of a dispute relating to a merchant banking fund as well as lower travel and entertainment expenses. In connection with the acquisition of the assets of Panmure Gordon during 2004, new service groups were added that did not exist in 2003 and which added an aggregate of \$5 million across all other expense categories.

Capital Markets and Other operating loss was \$4 million in 2004, versus a loss of \$47 million in 2003. Operating loss as a percentage of segment net revenue was 2% for 2004, versus a loss of 34% in 2003.

2003 versus 2002. Capital Markets and Other net revenue was \$135 million in 2003, a decrease of \$39 million, or 22%, from net revenue of \$174 million in 2002. The decrease in net revenue in 2003 was principally due to a gain in 2002 of \$27 million on the sale of a portion of a long-term investment that did not recur in 2003. Also contributing to the decrease was lower secondary trading revenue of \$12 million.

Operating expenses were \$182 million for 2003, an increase of \$24 million, or 15%, versus operating expenses of \$158 million in 2002. Direct employee compensation and benefits expense in 2003 increased by \$15 million, or 22%, primarily due to the establishment of a new convertible bond desk, the addition of a new equity team in London and an increase in employee bonuses in the corporate bond area. Offsetting these increases were decreases in headcount and performance-based bonuses in other product areas. Other operating expenses increased by \$9 million, or 10%, primarily related to expenses associated with the aforementioned settlement of a dispute relating to a merchant banking fund.

Capital Markets and Other operating loss was \$47 million in 2003 versus operating income of \$16 million in 2002. Operating loss as a percentage of net revenue was 34% in 2003 versus operating income as a percentage of net revenue of 9% in 2002.

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Geographic Data

For a summary of the consolidated net revenue and identifiable assets of Lazard Group as of and for the years ended December 31, 2002, 2003 and 2004 by geographic region, see Note 15 of notes to our historical consolidated financial statements.

Cash Flows

Historically, Lazard Group's cash flows have been influenced primarily by the timing of receipt of Financial Advisory and Asset Management fees, the timing of distributions to members and payment of bonuses to employees. In general, we collect our accounts receivable within 60 days. In restructuring transactions, particularly restructurings involving bankruptcies, receivables sometimes take longer to collect than 60 days due to issues such as court-ordered holdbacks.

Cash and cash equivalents were \$274 million at December 31, 2004, a decrease of \$42 million versus cash and cash equivalents of \$316 million at December 31, 2003. During 2004, cash of \$426 million was provided by operating activities, including \$247 million from net income allocable to members, \$105 million of noncash charges, principally consisting of depreciation and amortization of \$17 million and minority interest of \$88 million and \$74 million being provided by net changes in other operating assets and operating liabilities. Cash of \$10 million was used for investing activities principally related to net additions to property. Financing activities during this period used \$470 million of cash, primarily for distributions to members and minority interest holders of \$469 million. Lazard Group traditionally makes payments for employee bonuses and distributions to members and minority interest holders in the first quarter with respect to the prior year's results.

Cash and cash equivalents were \$316 million at December 31, 2003, a decrease of \$17 million versus cash and cash equivalents of \$333 million at December 31, 2002. During the year ended December 31, 2003, cash of \$207 million was provided by operating activities, including \$250 million from net income allocable to members, and \$109 million of noncash charges principally consisting of depreciation and amortization of \$14 million and minority interest of \$95 million, with these items partially offset by net changes in other operating assets and operating liabilities of \$152 million. Cash of \$54 million was provided by investing activities, principally as a result of proceeds of \$100 million from the formation of the strategic alliance in Italy, offset by net additions in property relating to leasehold improvements, principally in London and Paris, of \$46 million. Financing activities used \$287 million of cash, primarily relating to distributions to members and minority interest holders of \$452 million, partially offset by \$200 million invested by Intesa in connection with the formation of the strategic alliance in Italy.

Liquidity and Capital Resources

Historically, Lazard Group's source of liquidity has been cash provided by operations, with a traditional seasonal pattern of cash flow. While employee salaries are paid throughout the year, annual discretionary bonuses have historically been paid to employees in January relating to the prior year. Our managing directors are paid a salary during the year, but a majority of their annual cash distributions with respect to the prior year have historically been paid to them in three monthly installments in February, March and April. In addition, and to a lesser extent, during the year we pay certain tax advances on behalf of our managing directors, and these advances serve to reduce the amounts due to the managing directors in the three installments described above. As a consequence, our level of cash on hand decreases significantly during the first quarter of the year and gradually builds up over the remaining three quarters of the year. We expect this seasonal pattern of cash flow to continue.

Lazard Group's consolidated financial statements are presented in U.S. dollars. Many of Lazard Group's non-U.S. subsidiaries have a functional currency, *i.e.*, the currency in which operational activities are primarily conducted, that is other than the U.S. dollar, generally the currency of the

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country in which such subsidiaries are domiciled. Such subsidiaries' assets and liabilities are translated into U.S. dollars at year end exchange rates, while revenue and expenses are translated at average exchange rates during the year. Adjustments that result from translating amounts from a subsidiary's functional currency are reported as a component of members' equity. Such currency translation adjustments served to increase members' equity by approximately \$47 million, \$51 million and \$30 million in the years ended December 31, 2002, 2003 and 2004, respectively. Foreign currency remeasurement gains and losses on transactions in non-functional currencies are included on the consolidated statements of income.

During 2002, 2003 and 2004, following the hiring of new senior management, Lazard Group invested significant amounts in the recruitment and retention of senior professionals in an effort to reinvest in the intellectual capital of Lazard Group's business. As a result, while payments for services rendered by our managing directors prior to 2002 generally did not exceed net income allocable to members, in 2002, 2003 and 2004, distributions to its managing directors exceeded its net income allocable to members. The amounts of the distributions that exceeded net income allocable to members were the primary cause for a decrease in members' equity during these periods. On a pro forma basis, Lazard Group will realize a further reduction of members' equity as a result of the separation. See Unaudited Pro Forma Condensed Consolidated Statement of Financial Condition.

We regularly monitor our liquidity position, including cash levels, credit lines, principal investment commitments, interest and principal payments on debt, capital expenditures and matters relating to liquidity and to compliance with regulatory net capital requirements. We maintain senior and subordinated lines of credit in excess of anticipated liquidity requirements. As of December 31, 2004, Lazard Group had \$212 million in unused lines of credit available to it. These facilities provide us with the ability to meet short-term cash flow needs resulting from our various business activities. If these facilities prove to be insufficient, we would seek additional financing in the credit or capital markets, although we may be unsuccessful in obtaining such additional financing on acceptable terms or at all. A significant portion of these capital lines support the capital markets and other separated businesses.

Lazard Group's cash flow generated from operations historically has been sufficient to enable it to meet its obligations, including interest on \$350 million of financings obtained since 2001. We believe that our cash flows from operating activities, after giving effect to the separation, should be sufficient for us to fund our current obligations for the next 12 months and beyond. In addition, we intend to maintain lines of credit that can be utilized should the need arise. Lazard Group entered into a commitment letter dated April 14, 2005 that provides that, subject to customary conditions precedent for transactions of this nature, including the consummation of this offering, a group of lenders will provide a five-year \$125 million revolving credit facility for Lazard Group and a separate \$25 million subordinated credit facility for Lazard Frères & Co. LLC, our U.S. broker dealer. The Lazard Frères & Co. LLC facility will be a four-year revolving credit facility, and then will continue as a term loan facility for an additional year. Each facility will contain customary affirmative and negative covenants and events of default for facilities of this type. The facilities will, among other things, limit the ability of the borrower to incur debt, grant liens, pay dividends, enter into mergers or to sell all or substantially all of its assets. In addition, each facility will contain financial covenants that must be maintained. The Lazard Frères & Co. LLC facility is intended to qualify as a satisfactory subordination agreement in accordance with the applicable NASD rules and regulations. We may, to the extent required and subject to restrictions contained in our financing arrangements, use other financing sources in addition to any new credit facilities.

Over the past several years, Lazard Group has entered into several financing agreements designed to strengthen both its capital base and liquidity, the most significant of which are described below. Each of these agreements is discussed in more detail in our historical consolidated financial statements and related notes included elsewhere in this prospectus.

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In March 2001, Lazard Group issued \$100 million of Mandatorily Redeemable Preferred Stock (Class C Preferred Interests). The Class C Preferred Interests are subject to mandatory redemption by Lazard Group in March 2011 and, prior to such date, are redeemable in whole or in part, at Lazard Group's option. The Class C Preferred Interests are entitled to receive distributions out of the profits of Lazard Group at a rate of 8% per annum, which distributions must be paid prior to any distributions of profits to holders of any other existing class of interests in Lazard Group. Unpaid distributions on the Class C Preferred Interests accrue but are not compounded. Upon liquidation of Lazard Group, the Class C Preferred Interests rank senior to members' equity. The Class C Preferred Interests will be redeemed in connection with the separation and recapitalization transactions.

In May 2001, a wholly-owned subsidiary of Lazard Group issued \$50 million of Senior Notes due 2011. These notes, which are unsecured obligations and guaranteed by Lazard Group, currently bear interest at an annual rate of 7.53%.

In September 2002, Lazard Group and Intesa announced their agreement to form a strategic alliance wherein effective January 2003, Intesa effectively became a 40% partner in Lazard Group's business in Italy. Pursuant to the terms of this strategic alliance, Intesa made a \$100 million investment in Lazard Group's business in Italy, and purchased a \$50 million subordinated promissory note issued by Lazard Group's business in Italy. The subordinated promissory note has a scheduled maturity in 2078 (subject to extension), with interest payable annually at the rate of 3.0% per annum.

From time to time, we have considered appropriate modifications to our relationship with Intesa. We have held various discussions with Intesa in connection with the separation and recapitalization transactions, and Intesa has notified us of its intention not to extend the term of the joint venture relationship beyond the expiration date of December 31, 2007. As a result, under the terms of the strategic alliance, unless we and Intesa otherwise agree, we will repurchase its 40% interest in our business in Italy and repay the \$50 million subordinated promissory note for an aggregate amount not to exceed \$150 million, less distributions received by Intesa in connection with the joint venture, on or prior to February 4, 2008. Based on the current performance of the joint venture, we do not currently expect any expiration of the joint venture to have a material adverse effect on our operating results.

In addition to its direct investment in Lazard Group's business in Italy, Intesa also purchased a \$150 million subordinated convertible promissory note from a wholly-owned subsidiary of Lazard Group. The subordinated convertible promissory note, which is guaranteed by Lazard Group, is convertible into a contractual right that entitles the holder to receive payments in certain fundamental transactions, including the sale of all or substantially all of the assets of Lazard Group, the sale of a substantial goodwill equity stake to a third party or the disposition of a line of business or a key House. The amounts payable under this contractual right are generally equal to the amounts that would have then been payable in respect of a working member goodwill interest at Lazard Group that was entitled to 3% of the aggregate goodwill-related distributions at the time of issuance of the \$150 million subordinated convertible promissory note, as if the goodwill interests of Lazard Group continued to be issued and outstanding after the separation and recapitalization transactions. This subordinated convertible promissory note has a scheduled maturity in 2018 and has interest payable annually at a variable interest rate between 3.0% and 3.25% per annum. The annual interest rate was 3.0% for the 12 months ended March 25, 2005 and is 3.25% for the 12 months ending March 25, 2006.

As of December 31, 2004, Lazard Group was in compliance with all of its obligations under its various borrowing arrangements.

We actively monitor our regulatory capital base. Our principal subsidiaries are subject to regulatory requirements in their respective jurisdictions to ensure their general financial soundness and liquidity, which requires, among other things, that we comply with certain minimum capital requirements, record-keeping, reporting procedures, relationships with customers, experience and

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training requirements for employees and certain other requirements and procedures. These regulatory requirements may restrict the flow of funds to affiliates. Regulatory approval is generally required for paying dividends in excess of certain established levels. See Note 13 of Notes to Consolidated Financial Statements for further information. These regulations differ in the U.S., the U.K., France, and other countries that we operate in. Our capital structure is designed to provide each of our subsidiaries with capital and liquidity consistent with its business and regulatory requirements. For a discussion of regulations relating to us, see Business Regulation included elsewhere in this prospectus.

Substantially all of the net proceeds to be received from this offering and the additional financing transactions will be utilized in connection with the recapitalization, and, to a lesser extent, to capitalize LFCM Holdings. See Use of Proceeds and Capitalization. We expect that the net incremental interest cost related to the additional financing transactions will be approximately \$52 million per year. We expect to service the resultant incremental debt with operating cash flow and the utilization of credit facilities and, to the extent required, other financing sources.

In connection with the separation, we expect that Lazard Group will have the right to purchase the separated merchant banking activities from LFCM Holdings after this offering as described in Certain Relationships and Related Transactions Relationship with LAZ-MD Holdings and LFCM Holdings Business Alliance Agreement.

We expect that, as a result of this offering and related transactions, and future exchanges of LAZ-MD Holdings exchangeable interests for shares of our common stock, the tax basis of Lazard Group's tangible and intangible assets attributable to our subsidiaries' interest in Lazard Group will be increased. These increases in the tax basis of Lazard Group's tangible and intangible assets attributable to our subsidiaries' interest in Lazard Group would not have been available to our subsidiaries but for the redemption of the historical partner interests and the future exchanges of LAZ-MD Holdings exchangeable interests for shares of our common stock. We further expect that any such increases in tax basis may reduce the amount of tax that our subsidiaries might otherwise be required to pay in the future.

Our subsidiaries intend to enter into a tax receivable agreement with LFCM Holdings that will provide for the payment by our subsidiaries to LFCM Holdings of 85% of the amount of cash savings, if any, in U.S. federal, state and local income tax or franchise tax that our subsidiaries actually realize as a result of these increases in tax basis and of certain other tax benefits related to our subsidiaries' entering into the tax receivable agreement, including tax benefits attributable to payments under the tax receivable agreement. Any amount paid by our subsidiaries to LFCM Holdings will generally be distributed to the working members in proportion to their goodwill interests underlying the working member interests held by or allocated to such persons immediately prior to the formation of the new holding company pursuant to the separation. While the actual amount and timing of payments under the tax receivable agreement will vary depending upon a number of factors, including the timing of exchanges, the extent to which such exchanges are taxable and the amount and timing of our subsidiaries' income, we expect that, as a result of the size of the increase in the tax basis of Lazard Group's tangible and intangible assets attributable to our subsidiaries' interest in Lazard Group, during the expected 24-year term of the tax receivable agreement, the payments that may be made to LFCM Holdings could be substantial. If the LAZ-MD Holdings exchangeable interests had been effectively exchanged in a taxable transaction for common stock at the time of the closing of this offering, the increase in the tax basis attributable to our subsidiaries' interest in Lazard Group would have been approximately \$1.7 billion, assuming an initial offering price of \$26.00 per share of common stock (the midpoint of the range of initial public offering prices set forth on the cover of this prospectus), including the increase in tax basis associated with the redemption and recapitalization. The cash savings that our subsidiaries would actually realize as a result of this increase in tax basis likely would be significantly less than this amount multiplied by our effective tax rate due to a number of factors, including the allocation of the increase in tax basis to foreign assets, the impact of the increase in the

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tax basis on our ability to use foreign tax credits and the rules relating to the amortization of intangible assets. The tax receivable agreement will require approximately 85% of such cash savings, if any, to be paid to LFCM Holdings. The actual increase in tax basis will depend, among other factors, upon the price of shares of our common stock at the time of the exchange and the extent to which such exchanges are taxable and, as a result, could differ materially from this amount. Our ability to achieve benefits from any such increase, and the payments to be made under this agreement, will depend upon a number of factors, as discussed above, including the timing and amount of our future income. In addition, if the IRS successfully challenges the tax basis increase, under certain circumstances, our subsidiaries could make payments to LFCM Holdings under the tax receivable agreement in excess of our subsidiaries' cash tax savings. See Certain Relationships and Related Transactions Relationship with LAZ-MD Holdings and LFCM Holdings Tax Receivable Agreement.

Lazard Ltd has not declared or paid any cash dividends on its common equity since its inception. Subject to compliance with applicable law, Lazard Ltd currently intends to declare quarterly dividends on all outstanding shares of common stock and expects its initial quarterly dividend to be approximately \$0.09 per share, payable in respect of the second quarter of 2005 (to be prorated for the portion of that quarter following the closing of this offering). The Class B common stock will not be entitled to dividend rights. The declaration of this and any other dividends and, if declared, the amount of any such dividend, will be subject to the actual future earnings, cash flow and capital requirements of our company, the amount of distributions to us from Lazard Group and the discretion of our board of directors. See Dividend Policy included elsewhere in this prospectus.

Summary of Quarterly Performance

The following tables present unaudited condensed quarterly consolidated financial information on a historical basis for each of Lazard Group's eight trailing quarters consisting of the first, second, third and fourth quarters of 2003 and 2004, respectively. The operating results for any quarter are not necessarily indicative of the results for any future period.

Quarterly Performance				
Three Months Ended				
	March 31, 2003	June 30, 2003	September 30, 2003	December 31, 2003
	(\$ in thousands)			
Net Revenue	\$ 228,791	\$ 271,008	\$ 306,270	\$ 377,315
Operating Expenses	179,591	183,706	189,400	241,333
Operating Income	\$ 49,200	\$ 87,302	\$ 116,870	\$ 135,982
Income Allocable to Members Before Extraordinary Gain	\$ 36,990	\$ 64,983	\$ 69,951	\$ 78,459
Net Income Allocable to Members	\$ 36,990	\$ 64,983	\$ 69,951	\$ 78,459

Quarterly Performance**Three Months Ended**

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Net revenue and operating income historically have fluctuated significantly between quarters. This variability arises from the fact that transaction completion fees comprise the majority of our net revenue, with the billing and recognition of such fees being dependent upon the successful completion of client transactions, the occurrence and timing of which is irregular and not subject to our control. In addition, incentive fees earned on AUM and compensation related thereto are generally not recorded until the fourth quarter of our fiscal year, when potential uncertainties regarding the ultimate realizable amounts have been determined.

Contractual Obligations

The following table sets forth information relating to our contractual obligations as of December 31, 2004:

	Contractual Obligations Payment Due by Period				
	Total	Less than 1 Year	1 - 3 Years	3 - 5 Years	More than 5 Years
	(\$ in thousands)				
Operating Leases	\$ 542,124	\$ 50,145	\$ 94,356	\$ 88,414	\$ 309,209
Capital Leases	66,554	26,558	5,770	5,770	28,456
Notes Payable and Subordinated Loans (a)	270,777	20,777			250,000
Mandatorily Redeemable Preferred Stock (a)	100,000				100,000
Merchant Banking Commitments (b)	14,031	2,526	11,505		
Contractual Commitments to Managing Directors, Senior Advisors and Employees (c)	72,573	38,008	33,583	982	
Total (d)	\$ 1,066,059	\$ 138,014	\$ 145,214	\$ 95,166	\$ 687,665

- (a) The \$50 million in aggregate principal amount of 7.53% Senior Notes due 2011 are expected to be repaid and the Class C Preferred Interests will be redeemed in connection with the separation and recapitalization transactions.
- (b) We may be required to fund our merchant banking commitments at any time through 2006, depending on the timing and level of investments by our merchant banking funds.
- (c) During 2002, 2003 and 2004, following the hiring of new senior management, Lazard Group invested significant amounts in the recruitment and retention of senior professionals in an effort to reinvest in the intellectual capital of Lazard Group's business. The majority of these commitments expired on December 31, 2004. The nature of the commitments to managing directors and employees, which represent most of the future commitments, is related primarily to guaranteed payments for services of managing directors and guaranteed compensation for employees. These payments and compensation were guaranteed to recruit and retain the professional talent needed to promote growth in our business. As a result, while payments for services rendered by our managing directors prior to 2002 generally did not exceed net income allocable to members, in 2002, 2003 and 2004 distributions to our managing directors exceeded our net income allocable to members.
- (d) The table above does not include any potential obligations relating to the LAM equity rights.

The contractual obligations table above does not include the following developments since December 31, 2004: (1) obligations related to Corporate Partners II Limited, a new private equity fund formed on February 25, 2005, with \$1 billion of institutional capital commitments and a \$100 million capital commitment from us, which may require funding at any time through 2010, and (2) any potential payment related to the IXIS cooperation arrangement. The level of this potential payment to IXIS would depend, among other things, on the level of revenue generated by the cooperation activities. The potential payment is limited to a maximum of approximately \$16.5 million (subject to reduction in certain circumstances) which would only occur if the cooperation activities generate no revenue over the course of the three-year initial period of such activities, the cooperation agreement is not renewed and our stock price fails to sustain certain price levels. We have held various discussions with Intesa in connection with the separation and recapitalization transactions, and Intesa has notified us of its intention not to extend the term of the joint venture

relationship beyond the expiration date of

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December 31, 2007. As a result, under the terms of the strategic alliance, unless we and Intesa otherwise agree, in 2008 we will repurchase its 40% interest in our business in Italy and repay the \$50 million subordinated promissory note included within notes payable and subordinated debt in the table above for an aggregate amount not to exceed \$150 million, less distributions received by Intesa in connection with the joint venture, on or prior to February 4, 2008.

Exchange/Clearinghouse Member Guarantees

Lazard Group is a member of various U.S. and non-U.S. exchanges and clearinghouses that trade and clear securities or futures contracts. Associated with its membership, Lazard Group may be required to pay a proportionate share of the financial obligations of another member who may default on its obligations to the exchange or the clearinghouse. To mitigate these performance risks, the exchanges and clearinghouses often require members to post collateral as well as meet minimum financial standards. While the rules governing different exchange or clearinghouse memberships vary, Lazard Group's guarantee obligations generally would arise only if the exchange or clearinghouse had previously exhausted its resources. In addition, any such guarantee obligation would be apportioned among the other non-defaulting members of the exchange or clearinghouse. Any potential contingent liability under these membership agreements cannot be estimated. Lazard Group has not recorded any contingent liability in the consolidated financial statements for these agreements and believes that any potential requirement to make payments under these agreements is remote.

Effect of Inflation

Lazard Ltd does not believe inflation will significantly affect its compensation costs as they are substantially variable in nature. However, the rate of inflation may affect Lazard Group expenses such as information technology and occupancy costs. To the extent inflation results in rising interest rates and has other effects upon the securities markets, it may adversely affect our financial position and results of operations by reducing AUM, net revenue or otherwise. See **Risk Factors** **Risks Related to Our Business** **Difficult market conditions can adversely affect our business in many ways, including by reducing the volume and value of the transactions involving our Financial Advisory business and reducing the value or performance of the assets we manage in our Asset Management business which, in each case, could materially reduce our revenue or income.**

Critical Accounting Policies and Estimates

Management's discussion and analysis of our consolidated financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in conformity with U.S. GAAP. The preparation of our consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates, including those related to revenue recognition, compensation liabilities, income taxes, investing activities and goodwill. We base these estimates on historical experience and various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Our actual results may differ from these estimates.

We believe that the critical accounting policies set forth below comprise the most significant estimates and judgments used in the preparation of our consolidated financial statements.

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Revenue Recognition

We generate substantially all of our net revenue from providing financial advisory, asset management and capital markets services to clients. We recognize revenue when the following criteria are met:

there is persuasive evidence of an arrangement with a client,

we have provided the agreed-upon services,

fees are fixed or determinable, and

collection is probable.

Our clients generally enter into agreements with us that vary in duration depending on the nature of the service provided. We typically bill clients for the full amounts due under the applicable agreements on or after the dates on which the specified service has been provided. Generally, payments are due within 60 days of billing. We assess whether collection is probable based on a number of factors, including past transaction history with the client and an assessment of the client's current creditworthiness. If, in our judgment, collection of a fee is not probable, we will not recognize revenue until the uncertainty is removed. In rare cases, an allowance for doubtful collection may be established, for example, if a fee is in dispute or litigation has commenced.

Income Taxes

As part of the process of preparing our consolidated financial statements, we are required to estimate our income taxes in each of the jurisdictions in which we operate. This process requires us to estimate our actual current tax liability and to assess temporary differences resulting from differing book versus tax treatment of items, such as deferred revenue, compensation and benefits expense, unrealized gains on long-term investments and depreciation. These temporary differences result in deferred tax assets and liabilities, which are included within our consolidated statements of financial condition. We must then assess the likelihood that our deferred tax assets will be recovered from future taxable income, and, to the extent we believe that recovery is not likely, we must establish a valuation allowance. Significant management judgment is required in determining our provision for income taxes, our deferred tax assets and liabilities and any valuation allowance recorded against our net deferred tax assets. Lazard Group has recorded gross deferred tax assets of \$60 million and \$88 million as of December 31, 2003 and 2004, respectively, which are fully offset by a valuation allowance due to uncertainties related to its ability to utilize such deferred tax assets, which principally consist of certain foreign net operating loss carryforwards, before they expire. Our determination of the need for a valuation allowance is based on our estimates of future taxable income by jurisdiction, and the period over which our corresponding deferred tax assets will be recoverable. If actual results differ from these estimates or we adjust these estimates in future periods, we may need to adjust our valuation allowance, which could materially impact our consolidated financial position and results of operations.

In addition, in order to determine our quarterly tax rate we are required to estimate full year pre-tax income and the related annual income tax expense in each jurisdiction. Tax exposures can involve complex issues and may require an extended period of time to resolve. Changes in the geographic mix or estimated level of annual pre-tax income can affect our overall effective tax rate. Significant management judgment is required in determining our provision for income taxes, our deferred tax assets and liabilities

and any valuation allowance recorded against our net deferred tax assets. Furthermore, our interpretation of complex tax laws may impact our measurement of current and deferred income taxes.

Valuation of Investments

Marketable investments and long-term investments consist principally of investments in exchange traded funds, merchant banking and alternative investment funds, and other privately

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managed investments. Gains and losses on marketable investments and long-term investments, which arise from changes in the fair value of the investments, are not predictable and can cause periodic fluctuations in net income allocable to members.

In determining fair value, we separate our investments into two categories. The first category consists of those investments that are publicly-traded, which, as of December 31, 2004, were approximately 49% of our marketable investments and long-term investments. For these investments, we determine value by quoted market prices. The second category consists of those that are not publicly-traded. For these investments, we determine value based upon our best estimate of fair value. As of December 31, 2004, this second category of investments comprises the remaining 51% of our marketable investments and long-term investments.

The fair value of those investments that are not publicly traded is based upon an analysis of the investee's financial results, condition, cash flows and prospects. Adjustments to the carrying value of such investments are made if there are third-party transactions evidencing a change in value. Adjustments also are made, in the absence of third-party transactions, if we determine that the expected realizable value of the investment differs from its carrying value. In reaching that determination, we consider many factors, including, but not limited to, the operating cash flows and financial performance of the investee, expected exit timing and strategy, and any specific rights or terms associated with the investment, such as conversion features and liquidation preferences. Partnership interests, including general partnership and limited partnership interests in real estate funds, are recorded at fair value based on changes in the fair value of the partnership's underlying net assets.

Because of the inherent uncertainty in the valuation of investments that are not readily marketable, estimated values may differ significantly from the values that would have been reported had a ready market for such investments existed. We seek to maintain the necessary resources, with the appropriate experience and training, to ensure that control and independent price verification functions are adequately performed.

Goodwill

In accordance with Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets, goodwill is tested for impairment annually or more frequently if circumstances indicate impairment may have occurred. In this process, we make estimates and assumptions in order to determine the fair value of our assets and liabilities and to project future earnings using valuation techniques, including a discounted cash flow model. We use our best judgment and information available to us at the time to perform this review. Because our assumptions and estimates are used in projecting future earnings as part of the valuation, actual results could differ.

Consolidation of VIEs

The consolidated financial statements include the accounts of Lazard Group and all other entities in which we are the primary beneficiary or control. Lazard Group determines whether it has a controlling financial interest in an entity by first evaluating whether the entity is a voting interest entity or a variable interest entity (VIE) under U.S. GAAP.

Voting Interest Entities. Voting interest entities are entities in which (i) the total equity investment at risk is sufficient to enable the entity to finance itself independently and (ii) the equity holders have the obligation to absorb losses, the right to receive residual returns and the right to make decisions about the entity's activities. Voting interest entities are consolidated in accordance with Accounting Research Bulletin (ARB) No. 51, Consolidated Financial Statements, as amended. ARB No. 51 states that the usual condition for a controlling financial

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interest in an entity is ownership of a majority voting interest. Accordingly, Lazard Group consolidates voting interest entities in which it has the majority of the voting interest.

Variable Interest Entities. VIEs are entities that lack one or more of the characteristics of a voting interest entity. A controlling financial interest in a VIE is present when an enterprise has a variable interest, or a combination of variable interests, that will absorb a majority of the VIE's expected losses, receive a majority of the VIE's expected residual returns, or both.

The enterprise with a controlling financial interest, known as the primary beneficiary, consolidates the VIE.

Lazard Group determines whether it is the primary beneficiary of a VIE by first performing a qualitative analysis of the VIE that includes, among other factors, its capital structure, contractual terms, and related party relationships. Where qualitative analysis is not conclusive, Lazard Group performs a quantitative analysis. For purposes of allocating a VIE's expected losses and expected residual returns to the VIE's variable interest holders, Lazard Group calculates its share of the VIE's expected losses and expected residual returns using a cash flows model that allocates those expected losses and residual returns to it, based on contractual arrangements and/or Lazard Group's position in the capital structure of the VIE under various scenarios. Lazard Group would reconsider its assessment of whether it is the primary beneficiary if there are changes to any of the variables used in determining the primary beneficiary. Those variables may include changes to financial arrangements, contractual terms, capital structure and related party relationships.

In accordance with FASB Interpretation No. 46R the assets, liabilities and results of operations of the VIE are included in the consolidated financial statements of Lazard Group if it is determined that we are the primary beneficiary. Any third party interest in these consolidated entities is reflected as minority interest in our consolidated financial statements.

Risk Management

Risk management is an important part of our business, but is focused primarily on the activities of the Capital Markets and Other segment, which will be part of the separated businesses and not be retained by us following this offering. As a result, we have separately summarized the discussion of risk management for our Financial Advisory and Asset Management, Corporate and Capital Markets and Other segments.

Financial Advisory and Asset Management

We believe that, due to the nature of the businesses and the manner in which we conduct our operations, the Financial Advisory and Asset Management segments are not subject to material market risks such as equity price risk, but are subject to foreign currency exchange rate risks which are summarized below.

Foreign Currency Exchange Rate Risk

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Foreign currency exchange rate risk arises from the possibility that our revenue and expenses may be affected by movements in the rate of exchange between non-U.S. dollar denominated balances (primarily euros and British pounds) and the U.S. dollar, the currency in which our financial statements are presented. In 2004, approximately 27% of Lazard Group's operating income was generated in non-U.S. dollar currencies.

Lazard Group generally does not hedge non-dollar foreign exchange exposure, as described above, arising in its operations outside the U.S. These foreign operations manage their individual foreign currency exposures with reference to their own base currency. However, Lazard Group does

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track and control the foreign currency exchange rate risks arising in each principal operation and has established limits for such exposures. In certain cases, Lazard Group may take open foreign exchange positions with a view to profit within internally defined limits, but Lazard Group does not utilize foreign exchange options in this context.

Based on the levels of operating income in 2004 denominated in euros and in British pounds, we estimate that operating income would increase or decrease by approximately \$1.2 million in the event of a 1% change in the exchange rate of the euro versus the U.S. dollar and approximately \$0.1 million in the event of a 1% change in the exchange rate of the British pound versus the U.S. dollar.

For more information, see [Risk Factors](#) [Risks Related to Our Business](#) [Fluctuations in foreign currency exchange rates could lower our net income or negatively impact the portfolios of our Asset Management clients and may affect the levels of our AUM.](#)

Corporate

Our Corporate activities are exposed to risks arising from transactions in trading and non-trading derivatives and to interest rate risk arising from short-term assets and third party loans.

Trading and Non-Trading Derivatives

We enter into forward foreign exchange contracts, interest rate swaps and other contracts for trading purposes, and non-trading derivative contracts, including forward foreign exchange contracts, interest rate swaps, cross-currency interest rate swaps and other derivative contracts to hedge exposures to interest rate and currency fluctuations. These trading and non-trading contracts are recorded at their fair values on our statements of financial condition and the related gains and losses on trading contracts are included in [trading gains and losses-net](#) on our consolidated statements of income. Lazard Group's hedging strategy is an integral part of its trading strategy and therefore the related gains and losses on Lazard Group's hedging activities also are recorded in [trading gains and losses-net](#) on the consolidated statements of income.

The table below presents the fair values of Lazard Group's trading and non-trading derivatives as of December 31, 2003 and 2004:

	December 31,	
	2003	2004
	(\$ in thousands)	
Assets:		
Trading Derivatives:		
Interest rate swap contracts	\$ 695	\$ 377
Exchange rate contracts	5	289

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Total	\$ 700	666
Liabilities:		
Trading Derivatives:		
Interest rate swap contracts	\$	\$ 1,124
Exchange rate contracts		291
Total trading derivatives		1,415
Non-Trading Derivatives:		
Interest rate swap contracts	3,222	3,204
Total	\$ 3,222	\$ 4,619

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Interest Rate and Foreign Currency Risk Trading, Non-Trading and Securities Owned

The risk management strategies that we employ use various stress tests to measure the risks of trading, non-trading and securities owned activities. Based on balances of securities owned, our interest rate risk as measured by a 0.25% +/- movement in interest rates totaled \$50 thousand as of December 31, 2003 and \$175 thousand as of December 31, 2004. Foreign currency risk, on those same balances, measured by a 2% +/- movement against the U.S. dollar totaled \$98 thousand as of December 31, 2003 and \$23 thousand as of December 31, 2004.

Interest Rate Risk Short Term Investments and Corporate Indebtedness

A significant portion of our liabilities have fixed interest rates or maximum interest rates, while our cash and short-term investments generally have floating interest rates. We estimate that operating income relating to cash and short-term investments and corporate indebtedness would change by approximately \$4 million, on an annual basis, in the event interest rates were to increase or decrease by 1%.

Capital Markets and Other

Risk management is an important part of the operation of the Capital Markets and Other segment since the business is exposed to a variety of risks including market, credit, settlement and other risks that are material and require comprehensive controls and ongoing management. Lazard Group utilizes a Global Capital Markets Risk Committee to assess risk management practices, particularly as these practices relate to regulatory requirements. In addition, Lazard Group utilizes an independent Risk Management Group, which reports to Lazard Group's chief financial officer and is responsible for analyzing risks and for coordinating and monitoring the risk management process. Further, the Risk Management Group supports the Global Capital Markets Risk Committee by providing risk profiles and analyses to the committee.

The Global Capital Markets Risk Committee and the Risk Management Group are responsible for the maintenance of a comprehensive risk management practice and process including:

a formal risk governance organization that defines the oversight process and its components,

clearly defined risk management policies and procedures supported by a specific framework,

communication and coordination among the business executives and risk functions, while maintaining strict segregation of responsibilities, controls, and oversight, and

clearly defined risk tolerance levels, which are regularly reviewed to ensure that our risk-taking is consistent with our business strategy, capital structure, and current and anticipated market conditions.

Risks inherent in the Capital Markets business are summarized below.

Market Risk

Market risk is the potential change in a financial instrument's value caused by fluctuations in interest and currency exchange rates, equity prices or other risks. The level of market risk is influenced by the volatility and the liquidity in the markets in which financial instruments are traded.

Historically, Lazard Group has sought to mitigate market risk associated with trading inventories by employing hedging strategies that correlate rate, price, and spread movements of trading inventories and related financing and hedging activities. Lazard Group has employed a combination of

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cash instruments and derivatives to hedge market exposure. The following discussion describes the types of market risk faced in the Capital Markets and Other segment.

Interest Rate Risk. Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments, primarily securities owned and securities sold but not yet purchased. Lazard Group typically uses U.S. Treasury securities in the Capital Markets and Other segment to manage interest rate risk relating to interest bearing deposits of non-U.S. banking operations as well as certain non-U.S. securities owned. Lazard Group historically hedged its interest rate risk by using interest rate swaps and forward rate agreements. Interest rate swaps generally involve the exchange of fixed and floating interest payment obligations without the exchange of the underlying principal amounts. Forward rate agreements are contracts under which two counterparties agree on the interest to be paid on a notional deposit of a specified maturity at a specific future settlement date with no exchange of principal.

Currency Risk. Currency risk arises from the possibility that fluctuations in foreign exchange rates will impact the value of financial instruments. Lazard Group has used currency forwards and options in the Capital Markets and Other segment to manage currency risk. Exchange rate contracts include cross-currency swaps and foreign exchange forwards. Currency swaps are agreements to exchange future payments in one currency for payments in another currency. These agreements are used to transform the assets or liabilities denominated in different currencies. Foreign exchange forwards are contracts for delayed delivery of currency at a specified future date.

Equity Price Risk. Equity price risk arises from the possibility that equity security prices will fluctuate, affecting the value of equity securities. The Capital Markets and Other segment is subject to equity price risk primarily in securities owned and securities sold but not yet purchased as well as for equity swap contracts entered into for trading purposes.

Credit Risk

The Capital Markets and Other segment is exposed to the risk of loss if an issuer or counterparty fails to perform its obligations under contractual terms and the collateral held, if any, is insufficient or worthless. Both cash instruments and derivatives expose the business to this type of credit risk. Lazard Group has established policies and procedures for mitigating credit risk on principal transactions, including reviewing and establishing limits for credit exposure, maintaining collateral and continually assessing the creditworthiness of counterparties.

In the normal course of business, the Capital Markets and Other segment executes, settles and finances various customer securities transactions. Execution of securities transactions includes the purchase and sale of securities that expose us to default risk arising from the potential that customers or counterparties may fail to satisfy their obligations. In these situations, the Capital Markets and Other segment may be required to purchase or sell financial instruments at unfavorable market prices to satisfy obligations to other customers or counterparties. Lazard Group has historically sought to control the risks associated with customer margin activities by requiring customers to maintain collateral in compliance with regulatory and internal guidelines.

Liabilities to other brokers and dealers related to unsettled transactions (*i.e.*, securities failed-to-receive) are recorded at the amount for which the securities were acquired and are paid upon receipt of the securities from other brokers or dealers. In the case of aged securities failed-to-receive, Lazard Group may purchase the underlying security in the market and seek reimbursement for losses from the counterparty.

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Concentrations of Credit Risk

The exposure to credit risk associated with the Capital Markets and Other trading and other activities is measured on an individual counterparty basis, as well as by groups of counterparties that share similar attributes. To reduce the potential for risk concentration, credit limits are established and monitored in light of changing counterparty and market conditions.

At December 31, 2004, Lazard Group's most significant concentration of credit risk was with the U.S. Government and its agencies. This concentration consists of both direct and indirect exposures. Direct exposure primarily results from securities owned that are issued by the U.S. Government and its agencies. Indirect exposure results from maintaining U.S. Government and agency securities as collateral for resale agreements and securities borrowed transactions. The direct exposure on these transactions is with the counterparty; thus, the Capital Markets and Other segment has credit exposure to the U.S. Government and its agencies only in the event of the counterparty's default.

Off-Balance Sheet Risks

The Capital Markets and Other segment may be exposed to a risk of loss not reflected on the consolidated financial statements for securities sold but not yet purchased, should the value of such securities rise.

For transactions in which credit is extended to others, the Capital Markets and Other segment seeks to control the risks associated with these activities by requiring the counterparty to maintain margin collateral in compliance with various regulatory and internal guidelines. Counterparties include customers who are generally institutional investors and brokers and dealers that are members of major exchanges. Required margin levels are monitored daily and, pursuant to such guidelines, counterparties are required to deposit additional collateral or reduce securities positions when necessary.

It is the policy of the Capital Markets and Other segment to take possession of securities purchased under agreements to resell. The market value of the assets acquired are monitored to ensure their adequacy as compared to the amount at which the securities will be subsequently resold, as specified in the respective agreements. The agreements provide that, where appropriate, the delivery of additional collateral may be required.

In connection with securities sold under agreements to repurchase, the Capital Markets and Other segment monitors the market value of assets delivered to ensure that the collateral value is not excessive as compared to the amount at which the securities will be subsequently repurchased.

Operational Risk

Operational risk is the exposure to loss resulting from inadequate or failed internal processes, people, systems or external events excluding credit, liquidity, market and insurance risk. It arises from various sources such as organization, compliance, operational

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risk assessment and control, employees and agents, process and systems, external events and outsourcing. Lazard Group has developed a risk management framework to ensure compliance with applicable regulatory requirements. The securities operations area prepares various daily, weekly and monthly reports to monitor these risks.

Table of Contents***Risk Management Framework***

The risk management framework utilized in addressing the risks associated with the Capital Markets and Other segment of Lazard Group's business is described below.

Market Risk

Based on the balances of securities owned, at the applicable dates, we quantify the sensitivities of our current portfolios to changes in market variables. These sensitivities are then utilized in the context of historical data to estimate earnings and loss distributions that current portfolios could have incurred throughout the historical period. From these distributions, we derive a number of useful risk statistics, including a statistic we refer to as Value at Risk, or VaR. The disclosed VaR is an estimate of the maximum amount current portfolios could lose with 99% confidence, over a given time interval. The VaR for our overall portfolios is less than the sum of the VaRs for individual risk categories because movements in different risk categories occur at different times and, historically, extreme movements have not occurred in all risk categories simultaneously. The difference between the sum of the VaRs for individual risk categories and the VaR calculated for all risk categories is shown in the following tables and may be viewed as a measure of the diversification within our portfolios.

In our VaR system, we use a historical simulation for two years to estimate VaR using a 99% confidence level and a one-day holding period for trading instruments.

In addition to the VaR risk measurement, the risk framework applies various stress tests to test the portfolios under stressful situations as follows:

<i>Interest Rate Risk:</i>	Parallel moves of treasury yield curves of +/- 0.25%.
<i>Curve Risk:</i>	Non-parallel moves of treasury yield curves within +/- 0.25%.
<i>Spread Risk:</i>	For corporate bonds only, +/- 0.50% moves in yield curve.
<i>Equity Price Risk:</i>	+/- 10% move in equity prices.
<i>Currency Risk:</i>	+/- 2% move in foreign exchange rates against U.S. dollars.

The following table summarizes our risk exposure according to the categories described above as of December 31, 2003 and December 31, 2004.

		Risk Measures	
		As of December 31,	Average(1)
		2003	2004

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	_____	_____	
			(\$ in thousands)
Interest Rate Risk	\$ 551	\$ 206	\$ 584
Curve Risk	1,026	127	1,062
Spread Risk	651	927	846
Equity Price Risk	964	539	1,540
Currency Risk		29	134
VaR	364	547	949

(1) Average is based on an average of monthly ending amounts from January 1, 2004 through December 31, 2004.

Credit Risk

We actively monitor our credit risk and exposure that originates from our business. Credit risk against each issuer is measured by calculating the risk-adjusted exposure. The risk adjustment is based on rating of the issuer, and this risk is netted for all positions with the same issuer.

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The credit risk framework determines two types of credit risks:

Credit Risk of the Issuer. The framework analyzes current positions in each issuer to determine the risk adjusted exposure, which is the estimated maximum potential exposure to the issuer in the future. Each issuer has a limit based on its rating. The portfolio's aggregate risk-adjusted exposure is monitored on a daily basis. The levels of risk-adjusted exposures in the U.S. bond and convertible desks are set forth below:

	Credit Risk of the Issuer		
	As of December 31,		
	2003	2004	Average(1)
	(\$ in thousands)		
Risk Adjusted Exposure	\$ 17,430	\$ 8,998	\$ 27,833

(1) Average is based on an average of monthly ending amounts from January 1, 2004 through December 31, 2004.

Credit Risk of the Trading Counterparty. We utilize a report indicating the gross counterparty exposure and settlement risk. The settlement risk indicates the risk if the counterparty reneges on a trade. In that case, we may have to buy or sell the security at additional cost. The framework has established limits for counterparties based on ratings.

Limit Monitoring Process

Lazard Group has established policies and procedures for mitigating credit risk on principal transactions, including reviewing and establishing limits for credit exposure, maintaining collateral and continually assessing the creditworthiness of counterparties.

The risk framework has developed a portfolio approach for risk measurements. This helps senior management assign limits at various levels such as location, trading desks and issuers. Senior management establishes policy limits representing the maximum risk it is willing to take on a normal day.

Credit risk limits take into account measures of both current and potential exposures and are set and monitored by broad risk type, product type and tenor to maturity. Credit risk mitigation techniques include, where appropriate, the right to require initial collateral or margin, the right to terminate transactions or to obtain collateral should unfavorable events occur, the right to call for collateral when certain exposure thresholds are exceeded, and the purchase of credit default protection.

Recently Issued Accounting Standards

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Effective January 1, 2003, Lazard Group adopted FIN 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others - an Interpretation of FASB Statements No. 5, 57, and 107 and Rescission of FASB Interpretation No. 34. FIN 45 requires certain disclosures to be made by a guarantor about its obligations under certain guarantees issued. It also requires a guarantor to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The adoption of FIN 45 did not have a material impact on Lazard Group's consolidated financial position or results of operations.

In December 2003, the Financial Accounting Standards Board (FASB) issued FIN 46R, Consolidation of Certain Variable Interest Entities - an interpretation of ARB No. 51, which further clarifies FIN 46, which was issued on January 17, 2003. FIN 46R clarifies when an entity should consolidate a VIE, more commonly referred to as a special purpose entity, or SPE. A VIE is an entity in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties, and may include many types of SPEs. FIN 46R requires that an

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entity shall consolidate a VIE if that entity has a variable interest that will absorb a majority of the VIE's expected losses if they occur, receive a majority of the VIE's expected residual returns if they occur, or both. FIN 46R does not apply to certain qualifying SPEs (QSPEs), the accounting for which is governed by Statement of Financial Accounting Standards (SFAS) No. 140, Accounting for Transfers and Servicing of Financing Assets and Extinguishments of Liabilities. FIN 46R is effective for newly created VIEs beginning January 1, 2004 and for existing VIEs as of the first reporting period beginning after March 15, 2004.

Effective January 1, 2004, Lazard Group adopted FIN 46R for VIEs created after December 31, 2003 and for VIEs in which Lazard Group obtained an interest after December 31, 2003. Lazard Group adopted FIN 46R in the second quarter of 2004 for VIEs in which it holds a variable interest that it acquired on or before December 31, 2003.

Lazard Group is involved with various entities in the normal course of business that are VIEs and hold variable interests in such VIEs. Transactions associated with these entities primarily include investment management, real estate and private equity investments. Those VIEs for which Lazard Group is the primary beneficiary were consolidated in the second quarter of 2004 in accordance with FIN 46R. Those VIEs include company sponsored venture capital investment vehicles established in connection with our compensation plans.

Lazard Group's merchant banking activities consist of making private equity, venture capital and real estate investments on behalf of customers. At December 31, 2003 and 2004, in connection with its merchant banking activities, the net assets of entities for which Lazard Group has a significant variable interest was approximately \$148 million and \$97 million, respectively. Lazard Group's variable interests associated with these entities, consisting of investments, carried interest and management fees, were approximately \$24 million at each of such dates which represent the maximum exposure to loss, only if total assets declined 100% at December 31, 2003 and 2004. At December 31, 2004, the consolidated statement of financial condition included \$21 million of incremental assets relating to the consolidation of VIEs for such merchant banking activities in which Lazard Group was deemed to be the primary beneficiary.

In connection with its Capital Markets and Other segment activities, Lazard Group holds a significant variable interest in an entity with assets of \$4 million and liabilities of \$16 million at December 31, 2003 and with assets of approximately \$2 million and liabilities of approximately \$15 million at December 31, 2004. Lazard Group's variable interests associated with this entity, primarily paid-in-kind notes, were approximately \$16 million and \$15 million at December 31, 2003 and 2004, respectively. As the note holders have sole recourse only to the underlying assets, Lazard Group has no exposure to loss at December 31, 2003 and 2004. Also, as Lazard Group is not the primary beneficiary, the entity has not been consolidated.

In connection with its Asset Management business, Lazard Group was the asset manager and held a significant variable interest in a hedge fund, where the aggregate net assets at December 31, 2003 was approximately \$8 million. Lazard Group's maximum exposure to loss at December 31, 2003 was approximately \$7 million. As of December 31, 2004, this fund no longer existed.

In April 2003, the FASB issued SFAS No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities. SFAS No. 149 clarifies the circumstances under which a contract with an initial investment meets the characteristics of a derivative under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. SFAS No. 149 also amended other existing pronouncements to result in more consistent reporting of derivative contracts. This pronouncement is effective for all contracts entered into or modified after June 30, 2003. Lazard Group adopted SFAS No. 149 as required, with no material impact on Lazard Group's consolidated financial statements.

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In May 2003, the FASB issued the SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity. SFAS No. 150 requires that the issuer classify a financial instrument that is within its scope as a liability. The initial recognition of SFAS No. 150 applies to financial instruments entered into or modified after May 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. Lazard Group's classification of mandatorily redeemable preferred stock is in accordance with SFAS No. 150.

In December 2003, Lazard Group adopted the provisions of SFAS No. 132R, Employers' Disclosure about Pensions and Other Post-Retirement Benefits. The Statement requires additional disclosures to those in the original SFAS 132 about assets, obligations, cash flows and net periodic benefit costs of defined benefit pension plans and other defined benefit post-retirement plans.

In March 2004, the FASB Emerging Issues Task Force (EITF) reached a final consensus on Issue 03-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments. EITF 03-1 requires that when the fair value of an investment security is less than its carrying value, an impairment exists for which the determination must be made as to whether the impairment is other-than-temporary. The EITF 03-1 impairment model applies to all investment securities accounted for under SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities and to investment securities accounted for under the cost method to the extent an impairment indicator exists. Under the guidance, the determination of whether an impairment is other-than-temporary and therefore would result in a recognized loss depends on market conditions and management's intent and ability to hold the securities with unrealized losses. Subsequent to its issuance, the FASB deferred certain provisions of EITF 03-1; however, the disclosure requirements remain effective. The adoption of EITF 03-1 did not have an impact on Lazard Group's consolidated financial position or results of operations since Lazard Group does not have any securities accounted for under SFAS No. 115.

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BUSINESS

Overview

We are a preeminent international financial advisory and asset management firm that has long specialized in crafting solutions to the complex financial and strategic challenges of our clients. We serve a diverse set of clients around the world, including corporations, partnerships, institutions, governments and high-net worth individuals. The first Lazard partnership was established in 1848. Over time we have extended our activities beyond our roots in New York, Paris and London. We operate today from 27 cities in key business and financial centers across 15 countries throughout Europe, North America, Asia and Australia. We focus primarily on two businesses, Financial Advisory and Asset Management. We believe that the mix of our activities across business segments, geographic regions, industries and investment strategies helps to diversify and stabilize our revenue stream.

Industry Trends and Strategic Focus

Industry Trends

We believe that a combination of long-term trends engender a favorable climate for revenue and profit growth in the financial services industry segments in which we compete. Longer-term trends that benefit our Financial Advisory business include:

Globalization. Companies around the world are continuing to globalize their operations, including through merger and acquisition activity.

Focus on Stockholder Value. Companies around the world are strongly focused on stockholder value, which drives continual portfolio rebalancing, including mergers, acquisitions, divestitures, restructurings, joint ventures, company sales and related transactions.

Consolidation. Intense and often increasing commercial competition is fueling the need for companies to realize economies of scale and scope and to optimize strategic positioning, which in turn drives the market for mergers and acquisitions. In addition, ongoing cycles in various international economies of deregulation and sometimes re-regulation add to the impetus of companies to either consolidate or restructure their portfolios.

Expansion of Leverage Markets. Long-term increases in investor demand for debt of non-investment grade issuers have driven growth in acquisitions by financial sponsors, as well as in the number of highly leveraged companies, a portion of which may become candidates for financial restructuring advisory services, particularly in less favorable economic environments.

Some of the trends influencing long-term growth in the markets served by our Asset Management business include:

Demographics. Aging populations in both developed and emerging economies around the world have increased the pools of savings available and the need for retirement investment services by institutions and individuals.

Internationalization. Investors around the world are internationalizing their investment portfolios, which plays to our strengths in managing international and global portfolios of equity and fixed income securities.

Acceptance of Alternative Investments. Many institutional and high-net worth investors are increasing their allocations to alternative investments to diversify risk while maintaining high targeted absolute returns. Growing acceptance of these strategies fuels the market for products such as the hedge funds and merchant banking funds that we manage.

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The markets in which we compete have begun to experience greater than normal growth in comparison to recent fiscal periods. Recovery in global equity markets during 2003, increases in corporate profits and consumer income following the recent recession, and increasing availability of financing are driving increased demand for mergers and acquisitions and asset management services. However, these trends are cyclical in nature and subject to periodic reversal. Due to the mix of our businesses, some of our businesses experienced performance declines during the recent recessionary period, while others, such as our Financial Restructuring practice, were growing. At present, our Financial Restructuring practice is trending down on a cyclical basis, while our Mergers and Acquisitions practice and Asset Management business are trending up.

The following table sets forth selected key industry indicators:

Key Industry Indicators

(\$ in billions, except as otherwise indicated)

	As of or for the Year				
	Ended December 31,			CAGR(a)	CAGR(a)
	1984	1994	2004	84- 04	94- 04
General Economic & Market Activity:					
Worldwide GDP (\$ in trillions) (b)	\$ 11.9	\$ 26.2	\$ 40.2	6%	4%
Dow Jones Industrial Average	1,212	3,834	10,783	12	11
MSCI World Index (c)	187	619	1,169	10	7
Advisory Activities:					
Worldwide M&A (d)	\$ 180	\$ 497	\$ 1,574	11%	12%
U.S. M&A (d)	178	293	762	8	10
Europe M&A (d)	1	138	505	35	14
Transatlantic M&A (d)	4	47	104	18	8
Worldwide M&A > \$1 billion (d)	59	202	927	15	16
Global Corporate Debt Defaults (e)	1	2	16	17	23
Asset Management Activities:					
U.S. Assets in U.S. & Global Corporate Equities (f)	\$ 1,682	\$ 5,920	\$ 15,298	12	10
Worldwide Assets Managed by Top 100 Managers (g)	1,188	3,741	21,406	16	21
Foreign Equities & ADRs Held by U.S. Residents (f)	26	628	2,424	25	14
Global Hedge Fund Assets Under Management (h)	*	189	950	*	18

(a) Calculated compound annual growth rate.

(b) Source: The Economist Intelligence Unit, December 2004.

(c) Source: Morgan Stanley Capital International, Inc.

(d) Source: Thomson Financial, March 15, 2005. Transaction geographies reported based on location of target. Figures based on completed transactions.

(e) Source: Moody's Investors Service Inc.® Cited with permission. All rights reserved.

(f) Source: The Federal Reserve.

(g) Source: Pensions & Investments (Data not available for 2004; 2003 value shown).

(h) Source: Van Hedge Fund Advisors International.

* Indicates data not available.

Competitive Advantages

We attribute our success and distinctiveness to a combination of long-standing advantages from which we and our predecessor partnerships have benefited, including:

Experienced People. Our professionals concentrate on solving complex strategic and financial problems and executing specialized investment strategies. We strive to maintain and enhance our base of highly talented professionals and pride ourselves on being able to offer clients more senior-level attention than may be available from many of our competitors.

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Independence. We are an independent firm, free of many of the conflicts that can arise at larger financial institutions as a result of their varied sales, trading, underwriting, research and lending activities. We believe that recent instances of perceived or actual conflicts of interest, and the desire to avoid any potential future conflicts, have increased the demand by managements and boards of directors for trusted, unbiased advice from professionals whose main product is advice.

Reputation. Our firm has a brand name with over 150 years of history. We believe this brand name connotes superior service, integrity and creative solutions. Throughout our history, we have been focused on providing world-class professional advice in complex strategic and financial assignments, utilizing both our global capabilities and deeply rooted, local know-how.

Focus. We are focused on two primary businesses Financial Advisory and Asset Management rather than on a broad range of financial services. We believe this focus has helped, and will continue to help, us attract clients and recruit professionals who want to work in a firm where these activities are the central focus.

Global Presence with Local Relationships. We have been pioneers in offering financial advisory services on an international basis and in investing in international markets through our Asset Management business. We do not regard any single jurisdiction as our home country. Instead, we believe that linking our talented, indigenous professionals, deep local roots and industry expertise across offices enables us to be a global firm while maintaining a local identity. We believe this approach allows us to build close local relationships with our clients and to develop insight into both local and international commercial, economic and political issues affecting their businesses. Our ability to put clients in contact with our skilled professionals around the world is central to our specialized skill in performing cross-border transactions and worldwide investment mandates. In Asset Management, this is reflected through LAM's global research platform of analysts as well as the provision of local investment solutions and services to clients.

Balance. We seek to balance the sources of our earnings among multiple geographic regions, industries, advisory practice areas and investment sectors in order to provide greater diversification and stability to our revenue stream. For example, our Financial Advisory business includes both our Mergers and Acquisitions practice and Financial Restructuring practice, which historically have been counter-cyclical to each other, thus helping to stabilize our revenue stream. In addition, our relationships in one of these practice areas often lead to future engagements for the other. Our Asset Management business complements the Financial Advisory business by helping to provide further stability, principally because we generate significant recurring client business from year to year. Our revenue also is geographically diversified: in 2004, we derived 50% of our net revenue from continuing operations from our offices in North America, 47% from our offices in Europe and 3% from offices in the rest of the world.

Strong Culture. We believe that our people are united by a desire to be a part of an independent firm in which their activities are at the core and by a commitment to excellence and integrity in their activities. This is reinforced by the significant economic stake our managing directors have in our success. When hiring new employees, we identify candidates that have traits consistent with our values in order to further maintain our culture. In our opinion, the strength of our many long-term client relationships is a testament to our distinctive culture and approach to providing superior advice to our clients.

Principal Business Lines

Our business is organized around two segments: Financial Advisory and Asset Management.

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Financial Advisory

We offer corporate, partnership, institutional, government and individual clients across the globe a wide array of financial advisory services regarding mergers and acquisitions, restructurings and various other corporate finance matters. We focus on solving our clients' most complex problems, providing advice to senior management, boards of directors and business owners of prominent companies and institutions in transactions that typically are of significant strategic and financial importance to them.

Our goal is to continue to grow our Financial Advisory business by fostering long-term, senior-level relationships with existing and new clients as their independent advisor on strategic transactions. We seek to build and sustain long-term relationships with our clients rather than focusing on individual transactions, a practice that we believe enhances our access to senior management of major corporations and institutions around the world. We emphasize providing clients with senior level attention during all phases of transaction execution.

While we strive to earn repeat business from our clients, we operate in a highly competitive environment in which there are no long-term contracted sources of revenue. Each revenue-generating engagement is separately negotiated and awarded. To develop new client relationships, and to develop new engagements from historical client relationships, we maintain an active dialogue with a large number of clients and potential clients, as well as with their financial and legal advisors, on an ongoing basis. We have gained a significant number of new clients each year through our business development initiatives, through recruiting additional senior investment banking professionals who bring with them client relationships and through referrals from directors, attorneys and other third parties with whom we have relationships. At the same time, we lose clients each year as a result of the sale or merger of a client, a change in a client's senior management, competition from other investment banks and other causes.

In 2004, Financial Advisory net revenue totaled \$655 million, accounting for 60% of our net revenue from continuing operations. We earned advisory revenue from 435 clients in 2004. We earned \$1 million or more from 136 clients in 2004, and in that year the ten largest fee paying clients constituted 25% of our segment net revenue, and no client individually constituted more than 10% of segment net revenue.

We believe that we have been pioneers in offering financial advisory services on an international basis, with the establishment of our New York, Paris and London offices dating back to the nineteenth century. We maintain major local presences in the U.S., the U.K., France and Italy, including a network of regional branch offices in the U.S. and France, as well as presences in Australia, Canada, Germany, Hong Kong, India, Japan, the U.K., the Netherlands, Sweden, Singapore, South Korea and Spain. Our Italian office is operated as a strategic alliance with Intesa. Pursuant to the strategic alliance, Intesa holds 40% of the equity of, and a \$50 million subordinated promissory note from, the entity that operates our Italian business and has representation on its board of directors, and a \$150 million note issued by a financing subsidiary of Lazard Group, and both notes are guaranteed by Lazard Group. We also have recently entered into a joint venture with Signatura Advisory called Signatura Lazard, which will provide local and cross-border financial services in Brazil, and a strategic alliance with MBA Banco de Inversiones regarding the provision of cross-border advisory services to institutions investing in companies in Argentina and to Argentine companies investing abroad.

In addition to seeking business centered in these locations, we historically have focused in particular on advising clients with respect to cross-border transactions. We believe that we are particularly well known for our legacy of offering broad teams of professionals who are indigenous to their respective regions and who have long-term client relationships, capabilities and know-how in their respective regions. We also believe that this positioning affords us insight around the globe into key industry, economic, government and regulatory issues and developments, which we can bring to bear on behalf of our clients.

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Services Offered

We advise clients on a wide range of strategic and financial issues. When we advise companies in the potential acquisition of another company or certain assets, our services include evaluating potential acquisition targets, providing valuation analyses, evaluating and proposing financial and strategic alternatives and rendering, if appropriate, fairness opinions. We also may advise as to the timing, structure, financing and pricing of a proposed acquisition and assist in negotiating and closing the acquisition. In addition, we may assist in implementing an acquisition by acting as a dealer-manager if the acquisition is structured as a tender or exchange offer.

When we advise clients that are contemplating the sale of certain businesses, assets or their entire company, our services include evaluating and recommending financial and strategic alternatives with respect to a sale, advising on the appropriate sales process for the situation, valuation issues, assisting in preparing an offering memorandum or other appropriate sales materials and rendering, if appropriate, fairness opinions. We also identify and contact selected qualified acquirors and assist in negotiating and closing the proposed sale.

For companies in financial distress, our services may include reviewing and analyzing the business, operations, properties, financial condition and prospects of the company, evaluating debt capacity, assisting in the determination of an appropriate capital structure and evaluating and recommending financial and strategic alternatives. If appropriate, we may provide financial advice and assistance in developing and seeking approval of a restructuring or reorganization plan, which may include a plan of reorganization under Chapter 11 of the U.S. Bankruptcy Code or other similar court administered process in non-U.S. jurisdictions. In such cases, we may assist in all aspects of the implementation of such a plan, including advising and assisting in structuring and effecting the financial aspects of a sale or recapitalization, structuring any new securities, exchange offers, other considerations or other inducements to be offered or issued and assisting and participating in negotiations with affected entities or groups.

When we assist clients in raising private or public market financing, our services include originating and executing private placements of equity, debt and related securities, assisting clients in connection with securing, refinancing or restructuring bank loans, originating public underwritings of equity, debt and convertible securities and originating and executing private placements of partnership and similar interests in alternative investment funds such as leveraged buyout, mezzanine or real estate focused funds. In addition, we may advise on capital structure and assist in long-range capital planning and rating agency relationships.

Following this offering, we intend to enter into an arrangement with LFCM Holdings under which Lazard Group's separated Capital Markets and Other business segment will continue to underwrite and distribute U.S. and U.K. securities offerings originated by our Financial Advisory business in a manner intended to be similar to our practice prior to this offering, with revenue from such offerings generally continuing to be divided evenly between Lazard Group and LFCM Holdings.

Staffing

We staff our assignments with a team of quality professionals with appropriate product and industry expertise. We pride ourselves on, and we believe we are differentiated from our competitors by, being able to offer a relatively high level of attention from senior personnel to our clients and organizing ourselves in such a way that managing directors who are responsible for securing and maintaining client relationships also actively participate in providing related transaction execution services. Our managing directors have significant experience, and many of them are able to use this experience to advise on both mergers and acquisitions and

restructuring transactions, depending on

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our clients' needs. Many of our managing directors and senior advisors come from diverse backgrounds, such as senior executive positions at corporations, government, law and strategic consulting, which we believe enhances our ability to offer sophisticated advice and custom solutions to our clients.

Industries Served

We seek to offer our services across most major industry groups, including, in many cases, sub-industry specialties. Our Mergers and Acquisitions managing directors and professionals are organized to provide advice in the following major industry practice areas:

consumer,

financial institutions,

financial sponsors,

healthcare and life sciences,

industrial,

power and energy,

real estate, and

technology, media and telecommunications.

These groups are managed locally in each relevant geographic region and coordinated on a global basis, which allows us to bring local industry-specific knowledge to bear on behalf of our clients on a global basis. We believe that this enhances the quality of advice that we can offer, which improves our ability to market our capabilities to clients.

In addition to our Mergers and Acquisitions and Financial Restructuring practices, we also maintain specialties in the following distinct practice areas:

government advisory,

fund raising for alternative investment funds, and

corporate finance.

We endeavor to coordinate the activities of the professionals in these areas with our mergers and acquisitions industry specialists in order to offer clients customized teams of cross-functional expertise spanning both industry and practice area know-how.

Strategy

Since January 2002, when new senior management joined our firm, our focus in our Financial Advisory business has been on:

making a significant investment in our intellectual capital with the addition of many senior professionals who we believe have strong client relationships and industry expertise. We have recruited or promoted 68 new managing directors from January 2002 through December 2004, contributing to a 48% increase, net of departures, in Financial Advisory managing director headcount over that period, with the result that approximately 50% of our managing directors have joined our firm or been promoted since January 2002,

increasing our contacts with existing clients to further enhance our long-term relationships and our efforts in developing new client relationships,

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expanding the breadth and depth of our industry expertise in areas such as media and general industrials and adding new practice areas such as power and energy and fund-raising for alternative investment funds,

coordinating our industry specialty activities on a global basis and increasing the integration of our industry experts with our Financial Restructuring professionals, and

broadening our geographic presence by adding new offices in the Netherlands (Amsterdam), Canada (Toronto) and Australia (Sydney), as well as three new regional offices in the U.S. (Atlanta, Houston and Los Angeles) and entering into new strategic alliances in two new geographies (Argentina and Brazil).

We made these investments during a period of financial market weakness, when many of our competitors were reducing senior staffing, to position ourselves to capitalize more fully on any financial services industry recovery.

In addition to the recent expansion of our Financial Advisory team, we believe that the following external market factors may enable our Financial Advisory practice to benefit from future growth in the global mergers and acquisitions advisory business:

increasing demand for independent, unbiased financial advice, and

a potential increase in cross-border mergers and acquisitions and large capitalization mergers and acquisitions, two of our areas of historical specialization, which experienced greater than average declines in recent years.

Going forward, our strategic emphasis in our Financial Advisory business is to leverage the investments we have made in recent years to grow our business and drive our productivity. While we will continue opportunistically to attract outstanding individuals to this practice, we anticipate that our recent managing director expansion program is now substantially complete.

Relationship with IXIS

In April 2004, Lazard Group and IXIS entered into a cooperation arrangement to place and underwrite securities on the French equity primary capital markets under a common brand, Lazard-Ixis, and cooperate in their respective origination, syndication and placement activities. This cooperation covers French listed companies exceeding a market capitalization of €500 million. On March 15, 2005, Lazard Group and IXIS entered into a binding term sheet to expand this arrangement into an exclusive arrangement within France, conditioned upon, among other things, the completion of this offering and the additional financing transactions involving IXIS. The cooperation arrangement also provides for an alliance in real estate advisory work with the objective of establishing a common brand for advisory and financing operations within France. It also adds an exclusive mutual referral cooperation arrangement, subject to the fiduciary duties of each firm, with the goal of referring clients from Lazard Group to IXIS for services relating to corporate banking, lending, securitizations and derivatives within France and from IXIS to Lazard Group for mergers and acquisitions advisory services within France. This expanded cooperation arrangement will have a term of three years from the date of completion of this offering.

In connection with the cooperation arrangement, Lazard Group and IXIS will develop a business plan to promote mutual revenue production and sharing relating to the cooperation activities. As part of that plan, revenue from the various activities subject to the

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cooperation arrangement will be credited towards a target revenue number (which the parties may agree to reduce if aspects of the cooperation do not take place) at varying percentages depending on the source of the revenue along with the underwriting commission received by IXIS for the exchangeable debt securities. If at the end of the

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initial term of the cooperation arrangement, (a) the sum of that calculation is less than the target revenue number, (b) the cooperation arrangement is not renewed and (c) our common stock price fails to sustain specified price levels, Lazard Group or its affiliate will pay IXIS or one of its affiliates the difference between the target revenue number and the sum of (1) the revenue credits and (2) any gain IXIS has realized on a sale of its investment in our securities prior to the end of the initial term of the arrangement. The level of this potential payment would depend, among other things, on the level of revenue generated by the cooperation activities. The potential payment is limited to a maximum of approximately \$16.5 million (subject to reduction in certain circumstances) which would only occur if the cooperation activities generate no revenue over the course of the three-year initial period of such activities and the other conditions noted above have not been met.

Asset Management

Our Asset Management business provides investment management and advisory services to institutional clients, financial intermediaries, private clients and investment vehicles around the world. Our goal in our Asset Management business is to produce superior risk-adjusted investment returns and provide investment solutions customized for our clients. Many of our equity investment strategies share an investment philosophy that centers on fundamental security selection with a focus on the trade-off between a company's valuation and its financial productivity.

As of December 31, 2004, total AUM was \$86.4 billion, approximately 81% of which was invested in equities, 13% in fixed income, 3% in alternative investments, 3% in cash and less than 1% in merchant banking funds. As of the same date, approximately 56% of our AUM was invested in international (*i.e.*, non-U.S.) investment strategies and 23% was invested in global investment strategies and 21% was invested in U.S. investment strategies, and our top ten clients and third-party relationships accounted for 26% of total AUM. Approximately 80% of our AUM as of that date was managed on behalf of institutional clients, including corporations, labor unions, public pension funds, insurance companies and banks, and through sub-advisory relationships, mutual fund sponsors, broker-dealers and registered advisors. Approximately 20% of AUM as of December 31, 2004 was managed on behalf of individual client relationships, which are principally with family offices and high-net worth individuals.

The charts below illustrates the mix of our AUM as of December 31, 2004, measured by broad product strategy and by office location.

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LAM and LFG

Our largest Asset Management subsidiaries are LAM in New York, San Francisco, London, Milan, Frankfurt, Hamburg, Tokyo, Sydney and Seoul (aggregating \$76.5 billion in total AUM as of December 31, 2004), and LFG in Paris (aggregating \$9.4 billion in total AUM as of December 31, 2004). LAM was founded in 1970 and LFG can trace its history back to 1969. These operations, with 605 employees as of December 31, 2004, provide our business with a global presence and local identity.

Primary distinguishing features of these businesses include:

a global footprint with global research, global mandates and global clients,

a broad-based team of approximately 170 investment professionals: LAM has approximately 150 investment professionals, which includes our approximately 60 focused, in-house, investment analysts across all products and platforms (35 of whom are on our global research platform), many of whom have substantial industry or sector specific expertise, and LFG has approximately 20 investment professionals, including five investment analysts, in each case as of December 31, 2004,

a security selection-based investment philosophy applied across products,

worldwide brand recognition and multi-channel distribution capabilities,

the significant investment in technology and systems development we have made, and

substantial equity participation in LAM held by a broad group of key employees.

Our Investment Philosophy, Process and Research. Our investment philosophy is generally based upon a fundamental security selection approach to investing. Across many of our products, we apply three key principles to investment portfolios:

pick securities, not markets,

find relative value, and

manage risk.

In searching for equity investment opportunities, our investment professionals generally follow an investment process that incorporates several interconnected components that may include:

analytical framework analysis and screening,

accounting validation,

fundamental analysis,

security selection and portfolio construction, and

risk management.

At LAM, we conduct investment research on a global basis, to develop market, industry and company specific insight. Approximately 60 investment analysts, located in our worldwide offices, conduct research and evaluate investment opportunities around the world across all products and platforms. The LAM global research platform is organized around six global industry sectors:

consumer goods,

financial services,

health care,

industrials,

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power, and

technology, media and telecommunications.

Our analysts recommend companies to portfolio managers and work with them on an ongoing basis to make buy and sell decisions. At LFG, five investment analysts conduct research and evaluate investment opportunities, primarily focused on large capitalization European companies.

Investment Strategies. Our Asset Management business provides equity, fixed income and cash management and alternative investment strategies to clients, paying close attention to clients' varying and expanding investment needs. We offer the following product platform of investment strategies:

	<u>Global</u>	<u>Regional</u>	<u>Domestic</u>
Equities	Global	Pan-European	U.S.
	Large Capitalization	Large Capitalization	Large Capitalization**
	Small Capitalization	Small Capitalization	Mid Capitalization
	Emerging Markets		Small Capitalization
	Thematic Convertibles*	Eurozone	Multi-Capitalization
		Large Capitalization**	
	EAFE (Non-U.S.)	Small Capitalization**	Other
	Large Capitalization		U.K. (Large Capitalization)
	Small Capitalization	Continental European	U.K. (Small Capitalization)
	Multi-Capitalization	Small Cap	Australia
		Multi Cap	France (Large Capitalization)*
	Global Ex	Eurozone (<i>i.e.</i> , Euro Bloc)	France (Small Capitalization)*
	Global Ex-U.K.	Euro-Trend (Thematic)	Japan**
	Global Ex-Japan		
	Global Ex-Australia		
Fixed Income and	Global	Pan-European	U.S.

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Cash Management	Core Fixed Income	Core Fixed Income	Core Fixed Income
	High Yield	High Yield	High Yield
	Short Duration	Cash Management*	Short Duration
			Municipals
		Eurozone	Cash Management*
		Fixed Income**	
		Cash Management*	Non-U.S.
	Corporate Bonds**	U.K. Fixed Income	
Alternative	Global	Regional	
	Global Opportunities (Long/Short)	European Explorer (Long/Short)	
	Fund of Hedge Funds Closed-End Funds	Fund of Emerging Income	

All of the above strategies are offered by LAM, except for those denoted by *, which are offered exclusively by LFG. Investment strategies offered by both LAM and LFG are denoted by **.

In addition to the primary investment strategies listed above, we also provide locally customized investment solutions to our clients. In many cases, we also offer both diversified and more

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concentrated versions of our products. These products are generally offered on a separate account basis, as well as through pooled vehicles.

Distribution. We distribute our products through a broad array of marketing channels on a global basis. LAM's marketing, sales and client service efforts are organized through a global market delivery and service network, with distribution professionals located in New York, San Francisco, London, Milan, Frankfurt, Hamburg, Tokyo, Sydney and Seoul. We have developed a well-established presence in the institutional asset management arena, managing money for corporations, labor unions and public pension funds around the world. In addition, we manage assets for insurance companies, savings and trust banks, endowments, foundations and charities.

We also have become a leading firm in third-party distribution, managing mutual funds and separately managed accounts for many of the world's largest broker-dealers, insurance companies, registered advisors and other financial intermediaries. In the area of wealth management, we cater to family offices and private clients.

LFG markets and distributes its products through approximately ten sales professionals based in France who directly target both individual and institutional investors.

The managing directors of LAM and other key LAM employees hold LAM equity units, which entitle their holders to payments in connection with selected fundamental transactions affecting Lazard Group or LAM. For more information regarding these rights, see Management's Discussion and Analysis of Financial Condition and Results of Operations.

Merchant Banking

Lazard Group has a long history of making merchant banking investments with its own capital, usually alongside capital of qualified institutional and individual investors. These activities typically are organized in funds that make substantial or controlling investments in private or public companies, generally through privately negotiated transactions and with a view to divestment within two to seven years. While potentially risky and frequently illiquid, such investments when successful can yield investors substantial returns on capital and generate attractive management and performance fees for the sponsor of such funds.

In connection with the separation, we will transfer to LFCM Holdings all of our merchant banking fund management activities, except for our merchant banking business in France, which is regulated as part of our Paris-based banking affiliate, LFB. We also will transfer to LFCM Holdings \$20.8 million of principal investments by Lazard Group in the funds managed as part of the separated business, while our investment of \$10.6 million in our French merchant banking funds will be retained in Lazard Group.

LFCM Holdings will operate the merchant banking business transferred to it in the separation. Consistent with Lazard Group's intent to support the development of the merchant banking business, including investing capital in future funds to be managed or formed by the merchant banking subsidiary of LFCM Holdings, and in order to benefit from what we believe to be the potential of this business, Lazard Group may be entitled to receive from LFCM Holdings payments from the incentive fees attributable to these funds (net of compensation payable to investment professionals who manage these funds) pursuant to the business alliance agreement between us and LFCM Holdings. In addition, pursuant to the business alliance agreement, we will have an option to

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acquire the merchant banking business owned by LFCM Holdings and will have the right to participate in the oversight of LFCM Holdings' funds and consent to certain actions. We will continue to abide by our obligations with respect to transferred funds and will agree not to compete with LFCM Holdings' merchant banking

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business. For a description of these and other arrangements with respect to the merchant banking fund management activities being transferred to LFCM Holdings, see Certain Relationships and Related Transactions Relationship with LAZ-MD Holdings and LFCM Holdings Business Alliance Agreement.

We believe that the merchant banking business that will be transferred to LFCM Holdings has benefited recently from renewed attention and commitment by senior management. We believe that the merchant banking business can derive significant benefits from the resources of our Financial Advisory business as contemplated by the business alliance agreement, including sourcing investment opportunities through Financial Advisory client relationships. In addition, our Financial Advisory business can benefit from association with our merchant banking funds and their portfolio companies.

As of December 31, 2004, Lazard Group's merchant banking business in North America consisted of a number of funds specializing in real estate, venture capital and private equity, with approximately \$1.2 billion of AUM, and in France consisted of a group of private equity funds and an affiliated investment company with approximately \$551 million of AUM. Lazard Group's investments in these funds totaled approximately \$31 million as of December 31, 2004. Lazard Group is also in the process of raising capital for a number of new merchant banking funds in North America and Europe. Most recently, on February 25, 2005, we formed Corporate Partners II, Limited, a new private equity fund with \$1 billion of institutional capital commitments and a \$100 million capital commitment from us through 2010. This fund will be managed as part of LFCM Holdings, and Lazard Group will be entitled to receive the carried interest with respect to the fund less the share of carry distributed to managers of the fund.

Strategy

Our strategic plan in our Asset Management business is to focus on delivering superior investment performance and client service and broadening our product offerings and distribution in selected areas order to continue to drive improved business results. In March 2004, we undertook a senior management transition at LAM to put in place the next generation of leadership and to better position the business to execute our strategic plan. Over the past several years, in an effort to improve LAM's operations and expand our business, we have:

focused on enhancing our investment performance,

improved our investment management platform by hiring ten senior equity analysts and filling the newly established position of Head of Risk Management,

strengthened our marketing capabilities by establishing a global consultant relations effort aimed at improving our relations with the independent consultants who advise many of our clients on the selection of investment managers,

expanded our product platform by lifting-out experienced portfolio managers to establish new products in the hedge fund area and in thematic investing, and

launched new products such as Lazard European Explorer, a European long/short strategy, and Lazard Global Total Return and Income Fund, Inc., a closed-end fund.

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We believe that LAM has long maintained an outstanding team of portfolio managers and global research analysts. We intend to maintain and supplement our intellectual capital to achieve our goals. We also believe that LAM's specific investment strategies, global reach, unique brand identity and access to multiple distribution channels will allow it to leverage into new investment products, strategies and geographic locations. In addition, we plan to expand our participation in merchant banking activities through investments in new and successor funds.

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Employees

We believe that our people are our most important asset, and it is their reputation, talent, integrity and dedication that underpin our success. As of December 31, 2004, after giving effect to the separation, we employed 2,339 people, which includes 131 managing directors and 512 other professionals in our Financial Advisory segment and 35 managing directors and 260 other professionals in our Asset Management segment. We strive to maintain a work environment that fosters professionalism, excellence, diversity and cooperation among our employees worldwide. We utilize an evaluation process at the end of each year to measure performance, determine compensation and provide guidance on opportunities for improved performance. Generally, our employees are not subject to any collective bargaining agreements, except that our employees in certain of our European offices, including France and Italy, are covered by national, industry-wide collective bargaining agreements. We believe that we have good relations with our employees.

See Management and Risk Factors.

Competition

The financial services industry, and all of the businesses in which we compete, are intensely competitive, and we expect them to remain so. Our competitors are other investment banking and financial advisory firms, broker-dealers, commercial and universal banks, insurance companies, investment management firms, hedge fund management firms, merchant banking firms and other financial institutions. We compete with some of our competitors globally and with others on a regional, product or niche basis. We compete on the basis of a number of factors, including quality of people, transaction execution skills, investment track record, quality of client service, individual and institutional client relationships, absence of conflicts, range of products and services, innovation, brand recognition and business reputation.

While our competitors vary by country in our Mergers and Acquisitions practice, we believe our primary competitors in securing mergers and acquisitions advisory engagements are Bear Stearns, Citigroup, Credit Suisse First Boston, Goldman Sachs, JPMorgan Chase, Lehman Brothers, Mediobanca, Merrill Lynch, Morgan Stanley, Rothschild and UBS. In our Financial Restructuring practice our primary competitors are The Blackstone Group, Greenhill & Co. and Rothschild.

We believe that our primary competitors in our Asset Management business include, in the case of LAM, Alliance Bernstein, AMVESCAP, Brandes Investment Partners, Capital Management & Research, Fidelity, Lord Abbett and Schroders and, in the case of LFG, Swiss private banks with offices in France as well as large institutional banks and fund managers. We face competition in merchant banking both in the pursuit of outside investors for our merchant banking funds and to acquire investments in attractive portfolio companies. We compete with hundreds of other funds, many of which are subsidiaries of or otherwise affiliated with large financial service providers.

Competition is also intense in each of our businesses for the attraction and retention of qualified employees, and we compete on the level and nature of compensation and equity-based incentives for key employees. Our ability to continue to compete effectively in our businesses will depend upon our ability to attract new employees and retain and motivate our existing employees.

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In recent years there has been substantial consolidation and convergence among companies in the financial services industry. In particular, a number of large commercial banks, insurance companies and other broad-based financial services firms have established or acquired broker-dealers or have merged with other financial institutions. Many of these firms have the ability to offer a wider range of products than we offer, including loans, deposit taking, insurance and brokerage services. Many of these firms also have more extensive asset management and investment banking services, which may enhance their competitive position. They also have the ability to support investment banking and

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securities products with commercial banking, insurance and other financial services revenue in an effort to gain market share, which could result in pricing pressure in our businesses. This trend toward consolidation and convergence has significantly increased the capital base and geographic reach of our competitors.

Regulation

Our businesses, as well as the financial services industry generally, are subject to extensive regulation throughout the world. As a matter of public policy, regulatory bodies are charged with safeguarding the integrity of the securities and other financial markets and with protecting the interests of customers participating in those markets, not with protecting the interests of our stockholders or creditors. In the U.S., the SEC is the federal agency responsible for the administration of the federal securities laws. The exchanges, the NASD and the National Futures Association are voluntary, self-regulatory bodies composed of members, such as our broker-dealer subsidiaries, that have agreed to abide by the respective bodies' rules and regulations. Each of these and non-U.S. regulatory organizations may examine the activities of, and may expel, fine and otherwise discipline, member firms and their employees. The laws, rules and regulations comprising this framework of regulation and the interpretation and enforcement of existing laws, rules and regulations are constantly changing. The effect of any such changes cannot be predicted and may impact the manner of operation and profitability of our company.

Our U.S. broker-dealer subsidiary, Lazard Frères & Co. LLC, through which we will conduct our U.S. Financial Advisory business, is currently registered as a broker-dealer with the SEC, the NASD, and as a broker-dealer in all 50 states, the District of Columbia and Puerto Rico, and is a member firm of the NYSE, the AMEX and the Boston Stock Exchange. In connection with the separation, Lazard Frères & Co. LLC intends to withdraw its membership in the NYSE, the AMEX and the Boston Stock Exchange, at which time the NASD will become its primary regulator. We expect the broker-dealer subsidiary to be formed under LFCM Holdings will apply for membership on these exchanges. As such, Lazard Frères & Co. LLC is subject to regulations governing effectively every aspect of the securities business, including the effecting of securities transactions, minimum capital requirements, record-keeping and reporting procedures, relationships with customers, experience and training requirements for certain employees and business procedures with firms that are not members of certain regulatory bodies. Lazard Asset Management Securities LLC, a subsidiary of LAM, also is registered as a broker-dealer with the SEC, the NASD and in all 50 states, the District of Columbia and Puerto Rico. Lazard & Co., Limited, our wholly-owned U.K. subsidiary, is subject to regulation by the Financial Services Authority in the U.K. Lazard Frères SAS, our wholly-owned French subsidiary, is subject to regulation by the Comité de la Réglementation Bancaire et Financière for its banking activities, conducted through its affiliate LFB. In addition, the investment services activities of the Paris group, exercised through LFB and other subsidiaries of Lazard Frères SAS, primarily LFG (asset management) and Fonds Partenaires Gestion (merchant banking), are subject to regulation and supervision by the Autorité des Marchés Financiers (AMF). Our business is subject to regulation by non-U.S. governmental and regulatory bodies and self-regulatory authorities in other countries where we operate. Violation of applicable regulations can result in the revocation of broker-dealer licenses, the imposition of censures or fines and the suspension, expulsion or other disciplining of a firm, its officers or employees.

Our broker-dealer subsidiary is also subject to the SEC's uniform net capital rule, Rule 15c3-1, and the net capital rules of the NYSE and the NASD, which may limit our ability to make withdrawals of capital from our broker-dealer subsidiary. The uniform net capital rule sets the minimum level of net capital a broker-dealer must maintain and also requires that a portion of its assets be relatively liquid. The NYSE and the NASD may prohibit a member firm from expanding its business or paying cash dividends if resulting net capital falls below its requirements. In addition, our broker-dealer subsidiary is subject to certain notification requirements related to withdrawals of excess net capital. Our broker-

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dealer subsidiary is also subject to several new laws and regulations that were just recently enacted. The USA Patriot Act of 2001 has imposed new obligations regarding the prevention and detection of money-laundering activities, including the establishment of customer due diligence and other compliance policies and procedures. Additional obligations under the USA Patriot Act regarding procedures for customer verification became effective on October 1, 2003. Failure to comply with these new requirements may result in monetary, regulatory and, in the case of the USA Patriot Act, criminal penalties.

Certain of our Asset Management subsidiaries are registered as investment advisers with the SEC. As registered investment advisers, each is subject to the requirements of the Investment Advisers Act and the SEC's regulations thereunder. Such requirements relate to, among other things, principal transactions between an adviser and advisory clients, as well as general anti-fraud prohibitions. The Investment Company Act regulates the relationship between a mutual fund and its investment adviser (and other service providers) and prohibits or severely restricts principal record-keeping and reporting requirements, disclosure requirements, limitations on trades where a single broker acts as the agent for both the buyer and seller (known as agency cross), and limitations on transactions, affiliated transactions and joint transactions. Prior to this offering, Lazard Asset Management Securities LLC, a subsidiary of LAM, served as the underwriter or distributor for mutual funds and hedge funds managed by LAM, and as an introducing broker to Lazard Frères & Co. LLC for unmanaged accounts of LAM's private clients. Lazard Fund Managers Limited and Lazard Asset Management Limited, subsidiaries of LAM, are subject to regulation by the Financial Services Authority in the U.K.

Regulators are empowered to conduct administrative proceedings that can result in censure, fine, the issuance of cease-and-desist orders or the suspension or expulsion of a broker-dealer or its directors, officers or employees.

Many of our affiliates that participate in securities markets are subject to comprehensive regulations that include some form of capital structure regulations and other customer protection rules. These standards, requirements and rules are implemented throughout the European Union and are broadly comparable in scope and purpose to the regulatory capital and customer protection requirements imposed under the SEC and NASD rules. European Union directives also permit local regulation in each jurisdiction, including those in which we operate, to be more restrictive than the requirements of such directives, and these sometimes burdensome local requirements can result in certain competitive disadvantages to us. In addition, the Japanese Ministry of Finance and the Financial Supervisory Agency in Japan as well as Australian, German, French and Swiss banking authorities, among others, regulate various of our operating entities and also have capital standards and other requirements comparable to the rules of the SEC.

Over the past several years, European Union financial services regulators have taken steps to institute consolidated supervision over a wide range of financial services companies that conduct business in the European Union, even if their head offices are located outside of the European Union. Under the Financial Conglomerates Directive (2002/87/EC), we, along with a number of our competitors, will be required to submit to consolidated supervision by a European Union financial services regulator commencing on January 1, 2005, unless we are already subject to equivalent supervision by another regulator. On June 8, 2004, the SEC issued final regulations establishing a consolidated supervision framework for investment banks. The regulations became effective on August 20, 2004. Under these regulations, we can voluntarily submit to a stringent framework of rules relating to group-wide capital levels, internal risk management control systems and regulatory reporting requirements. We currently expect to elect to become subject to consolidated supervision by the SEC.

We are working with the SEC to fully understand the consequences of submitting to its consolidated supervision framework. We are unable at this time to accurately predict the impact that

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these regulations will have on our businesses and financial results. It is possible that these regulations may ultimately require that we increase our regulatory capital, which may adversely affect our profitability and result in other increased costs.

Legal Proceedings

Our businesses, as well as the financial services industry generally, are subject to extensive regulation throughout the world. We are involved in a number of judicial, regulatory and arbitration proceedings concerning matters arising in connection with the conduct of our businesses. We believe, based on currently available information, that the results of such proceedings, in the aggregate, will not have a material adverse effect on our financial condition but might be material to our operating results for any particular period, depending, in part, upon the operating results for such period.

We have received a request for information from the NASD as part of what we understand to be an industry investigation relating to gifts and gratuities, which is focused primarily on the Capital Markets business that will be part of the separated businesses. In addition, we have received requests for information from the SEC and the U.S. Attorney's Office for the District of Massachusetts seeking information concerning gifts and entertainment involving an unaffiliated mutual fund company, which are also focused on the Capital Markets business that will be part of the separated businesses. We believe that other broker-dealers have also received requests for information. These investigations are continuing and we cannot predict their potential outcomes, which outcomes, if any, could include the consequences discussed above under Regulation. We intend to continue to fully cooperate in these inquiries. In the course of an internal review of these matters, there have been personnel changes in the Capital Markets business that will be part of the separated businesses, including resignations by individuals who were formerly associated with such separated businesses.

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The following table lists the properties used for the entire Lazard organization, including properties used by the separated businesses. As a general matter, one or both of our Financial Advisory and Asset Management segments uses the following properties. We expect to license or sublease to LFCM Holdings certain office space, including office space that is used by the separated businesses. This will include subleasing or licensing approximately 55,100 square feet in New York, New York located at 30 Rockefeller Plaza and 2,500 square feet of space under the lease in London located at 50 Stratton Street to LFCM Holdings. We will remain fully liable for the subleased space to the extent LFCM Holdings fails to perform its obligations under the leases for any reason. In addition, LFCM Holdings will enter into indemnity arrangements in relation to excess space and abandoned former premises in London. See Certain Relationships and Related Transactions Relationship with LAZ-MD Holdings and LFCM Holdings Agreements with LAZ-MD Holdings and LFCM Holdings.

<u>Location</u>	<u>Square feet</u>	<u>Comments</u>
New York	273,000 square feet of leased space	Key office located at 30 Rockefeller Plaza, New York, New York 10020.
Other North America	47,400 square feet of leased space	Includes offices in Atlanta, Chicago, Houston, Los Angeles, Montreal, San Francisco, Toronto and Washington, D.C.
Paris	112,400 square feet of leased space	Key office located at 121 Boulevard Haussmann, 75382 Paris Cedex 08.
London	142,400 square feet of leased space	Key office located at 50 Stratton Street London W1J 8LL.
Milan	27,000 square feet of leased space	Key office located at via Dell Orso 2 20121 Milan.
Other Europe	59,300 square feet of leased space	Includes offices in Amsterdam, Berlin, Bordeaux, Frankfurt, Hamburg, Lyon, Madrid, Rome and Stockholm.
Asia and Australia	42,500 square feet of leased space	Includes offices in Mumbai, Hong Kong, New Delhi, Seoul, Singapore, Sydney and Tokyo.

We believe that we currently maintain sufficient space to meet our anticipated needs.

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Set forth below is information concerning our directors, director nominees and executive officers. We expect to appoint additional directors over time who are not employees of Lazard or otherwise affiliated with management.

<u>Name</u>	<u>Age</u>	<u>Position</u>
Bruce Wasserstein	57	Chairman and Chief Executive Officer
Robert Charles Clark	61	Director Nominee
Ellis Jones	51	Director Nominee
Vernon E. Jordan, Jr.	69	Senior Managing Director and Director Nominee
Anthony Orsatelli	54	Director Nominee
Michael J. Castellano	58	Managing Director and Chief Financial Officer
Steven J. Golub	59	Managing Director and Vice Chairman, Chairman of Financial Advisory Group
Scott D. Hoffman	42	Managing Director and General Counsel
Charles G. Ward, III	52	President, Chairman of Asset Management Group

Executive officers are appointed by, and serve at the pleasure of, our board of directors. A brief biography of each director and executive officer follows.

Bruce Wasserstein will serve as our Chairman and Chief Executive Officer. Mr. Wasserstein has served as the Head of Lazard and Chairman of the Executive Committee since January 2002. Prior to joining Lazard, Mr. Wasserstein was Executive Chairman at Dresdner Kleinwort Wasserstein from January 2001 to November 2001. Prior to joining Dresdner Kleinwort Wasserstein, he served as CEO of Wasserstein Perella Group (an investment banking firm he co-founded) from February 1988 to January 2001, when Wasserstein Perella Group was sold to Dresdner Bank. Prior to founding Wasserstein Perella Group, Mr. Wasserstein was the Co-Head of Investment Banking at The First Boston Corporation. Prior to joining First Boston, Mr. Wasserstein was an attorney at Cravath, Swaine & Moore. Mr. Wasserstein also currently serves as Chairman of Wasserstein & Co., LP, a private merchant bank. Mr. Wasserstein has over 30 years of experience in the investment banking and mergers and acquisitions industry.

Robert Charles Clark has served as the Harvard University Distinguished Service Professor at Harvard Law School since July 2003. Professor Clark previously served as the Dean of Harvard Law School from July 1989 to June 2003. Prior to becoming Dean, Professor Clark taught corporate law and corporate finance at Harvard as a Professor of Law, a role he has occupied since October 1978. From July 1974 to September 1978, he was on the faculty of Yale Law School, where he became a tenured Professor of Law. Prior to teaching at Yale Law School, Professor Clark was an attorney at Ropes & Gray from August 1972 to July 1974. Professor Clark currently serves as a trustee of Teachers Insurance Annuity Association (TIAA) and is on the board of directors of Collins & Aikman Corporation, Omnicom Group, Inc. and Time Warner Inc.

Ellis Jones has served as Chief Executive Officer of Wasserstein & Co., LP since January 2001. Prior to becoming Chief Executive Officer of Wasserstein & Co., LP, Mr. Jones was a Managing Director of the investment banking firm Wasserstein Perella Inc. from February 1995 to January 2001. Prior to joining Wasserstein Perella Inc., Mr. Jones was a Managing Director at Salomon Brothers Inc. in its Corporate Finance Department from March 1989 to February 1995. Prior to joining Salomon Brothers Inc., Mr. Jones

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worked in the Investment Banking Department at The First Boston Corporation from September 1979 to March 1989. Mr. Jones has over 20 years of experience in the investment banking and mergers and acquisitions industry.

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Vernon E. Jordan, Jr. has served as a Senior Managing Director of Lazard Frères & Co. LLC since January 2000. Mr. Jordan has been Of Counsel at Akin, Gump, Strauss, Hauer & Feld L.L.P. since January 2000, where he served as Senior Executive Partner from January 1982 to December 1999. Prior to that, Mr. Jordan served as President and Chief Executive Officer of the National Urban League, Inc. from January 1972 to December 1981. Mr. Jordan currently serves on the boards of directors of American Express Company, Asbury Automotive Group, Inc., Dow Jones & Company, Inc., J.C. Penney Company, Inc., Sara Lee Corporation and Xerox Corporation; as a trustee to Howard University; as a Senior Advisor to Shinsei Bank, Ltd.; and on the International Advisory Boards of DaimlerChrysler and Barrick Gold.

Anthony Orsatelli has served as the Chief Executive Officer of IXIS Corporate and Investment Bank since November 2004 and as a Member of the Executive Board of Caisse Nationale des Caisses d'Épargne since December 2003. Previously, Mr. Orsatelli held various senior positions with CDC IXIS and CDC Marchés since June 1996. Prior to joining CDC Marchés, Mr. Orsatelli served as the Deputy Head of the Capital Markets Department of Caisse des Dépôts Paris from March 1995 to June 1996. Mr. Orsatelli previously served as the Head of the BNP Group in Japan from January 1992 to March 1995, as a Managing Director of BNP Securities London from October 1988 to December 1991, and as the Head of the international department and risk management at BNP's financial division from July 1987 to October 1988. Mr. Orsatelli held positions with the French Ministry of Finance from September 1981 to July 1987 and with the Prime Minister's office in France from September 1977 to September 1981.

Michael J. Castellano will be our Chief Financial Officer. Mr. Castellano has served as a Managing Director and Chief Financial Officer of Lazard Group since August 2001. Prior to joining Lazard, Mr. Castellano held various senior management positions at Merrill Lynch & Co. from August 1991 to August 2001, including Senior Vice President Chief Control Officer for Merrill Lynch's capital markets businesses, Chairman of Merrill Lynch International Bank and Senior Vice President Corporate Controller. Prior to joining Merrill Lynch & Co., Mr. Castellano was a partner with Deloitte & Touche where he served a number of investment banking clients over the course of his 24 years with the firm. Mr. Castellano has over 35 years of relevant investment banking and securities industry experience.

Steven J. Golub will be our Vice Chairman and Chairman of our Financial Advisory Group. Mr. Golub has served as Vice Chairman of Lazard Group since October 2004 and as a Managing Director of Lazard Group since January 1986. Mr. Golub previously served as Chief Financial Officer from July 1997 to August 2001. Mr. Golub also served as a Senior Vice President of Lazard from May 1984 to January 1986. Prior to joining Lazard, Mr. Golub was a Partner at Deloitte Haskins & Sells from July 1980 to May 1984. Prior to joining Deloitte Haskins & Sells, he served as the Deputy Chief Accountant in the Chief Accountant's Office of the Securities and Exchange Commission from January 1979 to June 1980. Mr. Golub currently serves on the board of directors of Minerals Technologies Inc. Mr. Golub has over 20 years of experience in the investment banking and mergers and acquisitions industry.

Scott D. Hoffman will be our General Counsel. Mr. Hoffman has served as a Managing Director of Lazard Group since January 1999 and General Counsel of Lazard Group since January 2001. Mr. Hoffman previously served as Vice President and Assistant General Counsel from February 1994 to December 1997 and as a Director from January 1998 to December 1998. Prior to joining Lazard, Mr. Hoffman was an attorney at Cravath, Swaine & Moore. Mr. Hoffman has over 17 years of experience in the investment banking and mergers and acquisitions industry.

Charles G. Ward, III will be our President and Chairman of our Asset Management Group. Mr. Ward has served as President and a Managing Director of Lazard Group since February 2002 and

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is the Chairman of our Asset Management Group. Prior to joining Lazard, he was variously the Head or Co-Head of Global Investment Banking and Private Equity of Credit Suisse First Boston, or CSFB, from February 1994 to February 2002. Mr. Ward also served as a member of the Executive Board of CSFB from February 1994 to February 2002 and as President of CSFB from April 2000 to November 2000. Prior to joining CSFB, Mr. Ward co-founded Wasserstein Perella Group in February 1988 and served as President of Wasserstein Perella & Co. from January 1990 to February 1994. Prior to serving at Wasserstein Perella & Co., Mr. Ward was Co-Head of Mergers and Acquisitions and the Media Group at The First Boston Corporation where he worked from July 1979 to February 1988. Mr. Ward has over 25 years of experience in the investment banking and mergers and acquisitions industry.

There are no family relationships between any of the executive officers or directors of Lazard Ltd. Mr. Jones serves as a trustee of two trusts created by Mr. Wasserstein for the benefit of his family, which we refer to in this prospectus as the Wasserstein family trusts. The voting power of the shares of our common stock issuable upon exchange of the LAZ-MD Holdings exchangeable interests held in the Wasserstein family trusts is vested in Mr. Jones and members of Mr. Wasserstein's family, as trustees. There are no restrictions under Bermuda law as to nationality or professional qualifications for directors. However, exempted companies such as Lazard Ltd must comply with Bermuda resident representation provisions under the Companies Act, which, as a company whose shares are listed on an appointed stock exchange, including the NYSE, require Lazard Ltd to have a resident representative. The resident representative is responsible for making a report to the Bermuda Registrar of Companies in the event he or she becomes aware that Lazard Ltd has committed a breach of any provision of the Companies Act or where any issue or transfer of shares of Lazard Ltd have been effected in contravention of any other statute regulating the issue or transfer of shares.

Board Composition; Classes of Directors

Upon the consummation of this offering, we currently expect that our board of directors will consist of five members, who are Messrs. Wasserstein, Clark, Jones, Jordan and Orsatelli. During the year following this offering, we expect to appoint between two and four additional directors. Following such appointments, we will have a seven- to nine-member board, the majority of whom we expect to satisfy the independence standards established by the applicable rules, including the Sarbanes-Oxley Act of 2002, of the SEC and the NYSE. It is anticipated that our board of directors will meet at least quarterly. We expect at least half of our independent directors will be non-U.S. residents at the time of their appointment.

Because LAZ-MD Holdings initially will hold a majority of the voting power in us, we could qualify for various exceptions to governance standards as a controlled company. We do not, however, intend to elect to be treated as a controlled company following this offering.

Our board of directors is divided into three classes, each of whose members serve for a staggered three-year term. Upon the expiration of the term of a class of directors, directors in the class will be up for election for three-year terms at the annual meeting of stockholders to be held in the year in which the term expires.

In connection with IXIS's investment as part of the additional financing transactions, we have agreed that we will nominate one person designated by IXIS to our board of directors until such time as (1) the shares of our common stock then owned by IXIS, plus (2) the shares of our common stock issuable under the terms of any exchangeable securities issued by us then owned by IXIS, constitute less than 50% of the sum of (a) the shares of our common stock initially purchased by IXIS, plus (b) the shares of our common stock issuable under the terms of any exchangeable securities issued by us initially purchased by IXIS. Anthony Orsatelli is the initial nominee of IXIS to our board of directors.

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We have agreed that we will nominate to our board of directors one person designated by the Wasserstein family trusts until such time as (1) the shares of our common stock then owned directly or indirectly by the family trusts or any beneficiaries of the Wasserstein family trusts (in the aggregate), plus (2) the shares of our common stock issuable under the terms of any exchangeable interests issued by us then owned directly or indirectly by the Wasserstein family trusts or any beneficiaries of the Wasserstein family trusts (in the aggregate), constitute less than 50% of the shares of our common stock issuable under the terms of any exchangeable securities initially issued by us in connection with the separation and recapitalization transactions and held by the family trusts (in the aggregate) as of the date of this offering. Ellis Jones is the initial nominee of the Wasserstein family trusts to our board of directors.

Board Committees

Our board of directors will establish several standing committees in connection with the discharge of its responsibilities. These committees will include an audit committee, a compensation committee and a nominating and corporate governance committee. The board of directors also will establish such other committees as it deems appropriate, in accordance with applicable law and our bye-laws. Pursuant to the IXIS investment agreement, our management intends to support, upon IXIS's request, the nomination of IXIS's designee to our board of directors to the audit committee or the nominating and corporate governance committee on which such designee is permitted to serve, legally and pursuant to applicable stock exchange rules. The actual appointment of such designee to any such board committee will be subject to approval of our board of directors in its sole discretion.

Audit Committee

We expect that the members of the audit committee will be appointed promptly following this offering. All of the members of the audit committee will be independent, as determined in accordance with the rules of the NYSE and any relevant federal securities laws and regulations. The audit committee will assist our board of directors in monitoring the integrity of the financial statements, the independent auditors' qualifications, independence and performance, the performance of our company's internal audit function and compliance by our company with certain legal and regulatory requirements.

Compensation Committee

We expect that the members of the compensation committee will be appointed promptly following this offering. All of the members of the compensation committee will be independent, as determined in accordance with the rules of the NYSE and any relevant federal securities laws and regulations. The compensation committee will oversee the compensation plans, policies and programs of our company and will have full authority to determine and approve the compensation of our Chief Executive Officer, as well as to make recommendations with respect to compensation of our other executive officers. The compensation committee also will be responsible for producing an annual report on executive compensation for inclusion in our proxy statement. We do not anticipate having any compensation committee interlocks.

Nominating and Corporate Governance Committee

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We expect that the members of the nominating and corporate governance committee will be appointed promptly following this offering. All of the members of the nominating and corporate governance committee will be independent, as determined in accordance with the rules of the NYSE and any relevant federal securities laws and regulations. The nominating and corporate governance committee will not have more than four directors. The nominating and corporate governance committee will assist our board of directors in promoting the best interests of our company and our stockholders through the implementation of sound corporate governance principles and practices.

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The nominating and corporate governance committee will identify individuals qualified to become board members and recommend to our board of directors the director nominees for each annual meeting of stockholders. It also will review the qualifications and independence of the members of our board of directors and its various committees on a regular basis and make any recommendations the committee members may deem appropriate from time to time concerning any changes in the composition of our board of directors and its committees. The nominating and corporate governance committee also will recommend to our board of directors the corporate governance guidelines and standards regarding the independence of outside directors applicable to our company and review such guidelines and standards and the provisions of the nominating and corporate governance committee charter on a regular basis to confirm that such guidelines, standards and charter remain consistent with sound corporate governance practices and with any legal, regulatory or NYSE requirements. The nominating and corporate governance committee also will monitor our board of directors and our company's compliance with any commitments made to regulators or otherwise regarding changes in corporate governance practices and will lead our board of directors in its annual review of our board of directors' performance. Our nominating and corporate governance committee also has other responsibilities with respect to our Chief Executive Officer as more fully described under *Description of Capital Stock* *Bermuda Law* *Board Actions*.

Compensation Committee Interlocks and Insider Participation

We do not anticipate any interlocking relationships between any member of our compensation committee or our nominating and corporate governance committee and any of our executive officers that would require disclosure under the applicable rules promulgated under the U.S. federal securities laws.

Director Compensation

Non-Employee Directors

We anticipate that directors who are not our employees will receive a reasonable and customary annual retainer consisting of cash and equity for service on our board of directors, and additional fees per meeting to be paid in cash. All or a portion of the equity awards may be subject to vesting requirements.

We also anticipate that the chairpersons of the audit committee, compensation committee and nominating and corporate governance committee will receive reasonable and customary additional annual equity retainers. No other remuneration will be paid to our board members in their capacity as directors.

Employee Directors

Our employees who also serve as directors will receive compensation for their services as employees, but they will not receive any additional compensation for their service as directors.

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The following table sets forth information regarding the compensation earned by the Head of Lazard and Chairman of the Executive Committee and Lazard Group's executive officers, collectively referred to as the named executive officers in this prospectus, during Lazard Group's fiscal years ended December 31, 2003 and 2004.

Compensation Information(a)

<u>Name</u>	<u>Year</u>	<u>Salary</u>	<u>Bonus</u>	<u>All Other Compensation</u>
Bruce Wasserstein	2004	\$ 3,000,000	\$	\$ (b)
	2003	3,000,000		(b)
Michael J. Castellano	2004	250,000	1,550,000	625,000(c)
	2003	250,000	1,400,000	625,000(c)
Steven J. Golub	2004	1,000,000	2,000,000	
	2003	750,000	3,250,000	
Scott D. Hoffman	2004	500,000	1,500,000	
	2003	500,000	1,150,000	
Charles G. Ward, III	2004	1,500,000	1,500,000	301,000(d)
	2003	1,500,000	3,098,000	402,000(d)

- (a) The amounts represent compensation for the years ended December 31, 2003 and 2004 and do not include that portion of each named executive officer's total partnership return from Lazard LLC, in 2003 or 2004, attributable to a return on his invested capital or to his share of the income from investments made by Lazard LLC in prior years that was allocated to the individuals who were members in those years.
- (b) Mr. Wasserstein also reimbursed the firm for the personal use of a Lazard-leased aircraft by himself and his family at the incremental cost of this use.
- (c) Represents a cash make whole payment for foregone compensation from a previous employer, with one more payment of \$625,000 having been paid in February 2005.
- (d) Represents housing cost for 2003 and 2004 related to Mr. Ward relocating to London from his date of hire through August 2004. Mr. Ward has since moved back to the New York City area and no longer receives a housing cost allowance.

Aggregate compensation paid to employees who are not named executive officers may exceed that paid to all or some of the named executive officers.

In 2003 and 2004, Lazard Group did not pay long-term compensation to its named executive officers.

Retirement Plan Benefits

Each of Messrs. Golub and Hoffman has an accrued benefit under the Lazard Frères & Co. LLC Employees' Pension Plan, a qualified defined-benefit pension plan, and Mr. Hoffman has accrued additional benefits under a related supplemental defined-benefit pension plan. The annual benefit under such plans, payable as a single life annuity commencing at age 65, would

be \$4,332 for Mr. Golub and \$18,852 for Mr. Hoffman. These benefits accrued in each case prior to the applicable officer s becoming a managing director of Lazard. Benefit accruals under both of these plans were frozen for all participants effective January 31, 2005.

Arrangements with Our Managing Directors

In connection with this offering, Lazard Group, on behalf of itself, us, and its other affiliates, has entered into Agreements Relating to Retention and Noncompetition and Other Covenants, which we refer to in this prospectus as the retention agreements, with substantially all of our Financial Advisory managing directors and Asset Management managing directors who are not employed by LAM. Asset

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Management managing directors who are employed by LAM participate in separate equity arrangements at LAM, which contain restrictive covenants. The material terms of the retention agreements and the LAM arrangements are described below. Those of our managing directors who are employees of our joint venture with Intesa have signed service agreements with our joint venture entity that contain restrictive covenants that are comparable to those in the retention agreements described below. They will participate in our equity or results solely through a cash based incentive plan in the joint venture. See [The Retention Agreements in General](#), [The Retention Agreements with Named Executive Officers](#) and [LAM Managing Directors](#).

The Retention Agreements in General

The terms set forth below describe the material terms of the form of retention agreement entered into with our managing directors who are currently working members. You should refer to the exhibits that are a part of the registration statement for a copy of the form of agreement. See [Where You Can Find More Information](#).

Participation in This Offering

As part of the retention agreement, the managing director agrees to execute and deliver all documents, consents and agreements that are necessary to effectuate this offering and related transactions, and we agree that certain material terms of the agreements described below will not be modified in a manner that materially and adversely affects the rights provided thereunder.

In connection with the transactions, each retention agreement provides that the managing director's unvested working member interests will vest, and the managing director will receive, in exchange for his or her working member interests, LAZ-MD Holdings exchangeable interests. They also will have their working member capital exchanged for an identical amount of capital in LAZ-MD Holdings, and receive a profits interest in LAZ-MD Holdings. The chart below sets forth the amounts of interests that will be held by each named executive officer:

Managing Director	LAZ-MD Holdings Exchangeable Interests	Capital	LAZ-MD Holdings Profits Interests
Bruce Wasserstein(1)	10,427,894	\$	10,427,894
Michael J. Castellano	478,314	187,500	478,314
Steven J. Golub	1,806,966	4,169,241	1,806,966
Scott D. Hoffman	584,607	430,626	584,607
Charles G. Ward, III	1,594,382	514,500	1,594,382

(1) Includes 8,355,198 interests held directly or indirectly by the Wasserstein family trusts. The voting power over the shares of our common stock issuable upon exchange of the LAZ-MD Holdings exchangeable interests held by the Wasserstein family trusts is vested in Ellis Jones, who will serve on our board of directors, and members of Mr. Wasserstein's family, as trustees. Mr. Wasserstein does not have any beneficial or other ownership interest in these interests.

LAZ-MD Holdings Exchangeable Interests

The retention agreements provide that the LAZ-MD Holdings exchangeable interests may, at the managing director's election, be effectively exchangeable into shares of our common stock on the eighth anniversary of this offering. In addition, the managing director may elect such an exchange on an accelerated basis under certain circumstances, as follows:

If the managing director continues to provide services through the third anniversary of this offering (or is terminated without cause or due to disability prior thereto) and has not violated any of the restrictive covenants described below, the managing director may elect such a conversion in three equal installments on and after each of the third, fourth and fifth anniversaries of this offering.

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If the managing director continues to provide services through the second anniversary of this offering but not through the third anniversary of this offering (and was not terminated without cause or due to disability) and has not violated any of the restrictive covenants described below, the managing director may elect such an exchange in three equal installments on and after each of the fourth, fifth and sixth anniversaries of this offering.

If a managing director incurs a termination of services due to death on or prior to the second anniversary of this offering, all exchangeable interests held by the managing director shall, at our election, either become exchangeable no later than the first anniversary of such death or be purchased by LAZ-MD Holdings no later than the first anniversary of such death at the trading price of our common stock on the date of such repurchase. The same treatment shall apply upon a death on or prior to the second anniversary of this offering that occurs subsequent to the managing director's retirement, provided that the managing director did not violate any of the restrictive covenants described below subsequent to retirement (without regard to the time limits generally applicable to such covenants). For purposes of the agreement, retirement is defined as voluntary termination following attainment either of both age 55 and 10 years of service as a managing director or attainment of age 65.

If a managing director incurs a termination of services due to death subsequent to the second anniversary of this offering, but prior to the fourth anniversary of this offering, all exchangeable interests held by the managing director may be exchanged on the later of the third anniversary of this offering and the anniversary of this offering that next follows the date of such death. The same treatment shall apply upon a death subsequent to the second anniversary of this offering, but prior to the fourth anniversary of this offering that occurs subsequent to the managing director's retirement, provided that the managing director did not violate any of the restrictive covenants described below subsequent to retirement (without regard to the time limits generally applicable to such covenants).

In the event of a change of control, as set forth in the master separation agreement, after the first anniversary of the closing of this offering, all exchangeable interests held by the managing director will be exchanged immediately by our managing directors prior to the change of control at a time and in a fashion designed to allow the managing director to participate in the change of control on a basis no less favorable than that applicable to our stockholders generally. This acceleration right will apply to all holders of LAZ-MD Holdings exchangeable interests regardless of whether they sign or are asked to sign a retention agreement.

The subsidiaries of Lazard Ltd that hold Lazard Ltd's Lazard Group common membership interests can, with the approval of our board of directors, accelerate the above described exchange schedule in its discretion, as set forth in the master separation agreement, after the first anniversary of the closing of this offering. Both LAZ-MD Holdings and our subsidiaries through which the exchanges will be effected, with the consent of the Lazard Ltd board of directors, have the right to require the managing director to effectively exchange the exchangeable interests into shares of our common stock during the 30-day period commencing on the ninth anniversary of this offering, if no such exchange has previously occurred.

Profits Interests

The retention agreements provide that LAZ-MD Holdings profits interests will receive distributions designed to reimburse the managing director for income taxes due in respect of such profits interests. In addition, beginning as of the third anniversary of this offering, the LAZ-MD Holdings profits interests will receive distributions parallel to the dividends paid on shares of our common stock. The retention agreements provide that LAZ-MD Holdings profits interests will be granted only if the managing director continues to provide services as of this offering and only while such managing director continues to provide services to us.

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Capital

The retention agreements provide that LAZ-MD Holdings shall assume the existing obligations of Lazard Group for capital in Lazard Group and that LAZ-MD Holdings shall distribute to each managing director who is a party to a retention agreement amounts in respect of the managing director's capital accounts relating to his or her working member interests in equal installments on the first, second, third and fourth anniversaries of this offering. Each managing director also agrees that his or her rights to all capital of LAZ-MD Holdings allocated with respect to the LAZ-MD Holdings exchangeable interests and related profits interests shall be forfeited without payment therefor upon the exchange of the LAZ-MD Holdings exchangeable interests.

Services

Pursuant to the retention agreement, each managing director makes a commitment that is not legally binding to continue to provide services to us at least through the second anniversary of this offering, and, while providing services, to devote his or her entire working time, labor, skill and energies to us. The retention agreements provide each of the managing directors with a minimum base salary. The retention agreements also provide that annual bonuses will be determined in the sole discretion of the Chief Executive Officer of Lazard Ltd, subject to approval by our board of directors or an appropriate committee thereof if required by law or regulation, and such annual bonuses may be paid pursuant to our bonus plan (see Bonus Plan below). A portion of the annual bonuses may be payable as equity compensation. In addition, each managing director will be eligible to participate in our long-term incentive compensation programs and in our employee benefit plans generally. Generally, the provision of services under the retention agreements is terminable by either party upon three months' notice. No severance is payable upon a termination by us, other than continued compensation during the three-month notice period.

Restrictive Covenants

The retention agreements provide that the managing director is subject to the following restrictive covenants:

Noncompetition and Nonsolicitation of Clients. While providing services to us and during the three-month period following termination of the managing director's services to us (one-month period in the event of such a termination by us without cause), the managing director may not:

perform services in a line of business that is similar to any line of business in which the managing director provided services to us in a capacity that is similar to the capacity in which the managing director acted for us while providing services to us (competing services) for any business enterprise that engages in any activity, or owns a significant interest in any entity that engages in any activity, that competes with any activity in which we are engaged up to and including the date of termination of employment (a competitive enterprise),

acquire an ownership or voting interest of 5% or more in any competitive enterprise, or

solicit any of our clients on behalf of a competitive enterprise in connection with the performance of services that would be competing services or otherwise interfere with or disrupt any client's relationship with us.

Nonsolicitation of Employees. While providing services to us and during the six-month period following termination of the managing director's services, the managing director may not, directly or indirectly, in any manner, solicit or hire any of our employees at the associate level or above to apply for, or accept employment with, any competitive enterprise or otherwise interfere with any such employee's relationship with us.

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Transfer of Client Relationships, Nondisparagement and Notice Period Restrictions. The managing director is required, upon termination of his or her services to us and during the 90-day period following termination, to take all actions and do all things reasonably requested by us to maintain for us the business, goodwill and business relationships with our clients with which he worked, provided that such actions and things do not materially interfere with other employment or professional activities of the managing director. In addition, while providing services to us and thereafter, the managing director generally may not disparage us, and during the three-month notice period described above, the managing director is prohibited from entering into a written agreement to perform services for a competitive enterprise.

Breach of Restrictive Covenants Prior to This Offering. In the event that the managing director violates the restrictive covenants prior to this offering, the managing director will forfeit his or her unvested existing Lazard Group interests. If the violation of the restrictive covenants also is a violation of the restrictive covenants in the managing director's existing agreement with Lazard Group, the managing director will forfeit his or her vested Lazard Group interests as well. These remedies will be in addition to any other remedies we may have against the managing director.

Supersession of and Integration with Other Agreements

The retention agreements generally supersede all other agreements between us and the managing directors, except, to the extent that the managing director is subject to an existing services agreement, the provisions of the existing agreement generally survive if they are not inconsistent with the terms of the retention agreements. In addition, limited modifications have been made to some of the terms of the retention agreement to reflect the specific situations of some of the managing directors. The material terms of the modifications made to the retention agreements with the named executive officers are described below. See The Retention Agreements with Named Executive Officers.

Expiration If No Offering

The retention agreements provide that they shall expire and be of no further effect in the event this offering does not occur prior to September 30, 2005 or is otherwise abandoned or terminated prior to such date or in the event that the agreement with the historical partners is terminated prior to such date.

LAM Managing Directors

As noted above, managing directors employed by LAM generally are not parties to the above retention agreements and will not be receiving interests in LAZ-MD Holdings in connection with this offering. Instead, these managing directors and certain LAM employees will continue to hold their LAM equity units. The economic characteristics of these LAM equity units are described in Management's Discussion and Analysis of Financial Condition and Results of Operations Key Financial Measures and Indicators Minority Interest.

The LAM equity units are subject to various multi-year vesting schedules. As of the consummation of this offering, approximately 60% of the LAM equity units will have vested. The LAM equity units are subject to the following additional vesting and forfeiture rules set forth in the limited liability company agreement of LAM and in the equity plan:

All unvested LAM equity units are forfeited upon a termination of the holder's employment for cause or upon a voluntary termination of employment that is not for good reason.

Upon a termination for cause prior to January 2, 2006, all vested LAM equity units are forfeited, and upon such a termination subsequent to January 2, 2006, LAM equity units which vested during the 24-month period prior to such termination shall be forfeited.

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All LAM equity units are forfeited upon a breach of the confidentiality and non-solicit restrictions applicable to LAM managing directors, or upon violation prior to January 2, 2006 of the non-compete restrictions applicable to LAM managing directors. Upon a violation of the non-compete restrictions subsequent to January 2, 2006, any unvested LAM equity units and any LAM equity units which vested during the 24-month period prior to such termination shall be forfeited.

Upon certain change of control or liquidity events, the LAM phantom equity units are forfeited in exchange for payments similar to those payable to LAM equity interest holders in connection with the event, whose LAM equity interests also are forfeited for payment.

The non-solicitation restrictions prohibit solicitation and hire of our employees to work for a competing business or to resign from employment with us. These restrictions apply during the employment of the managing director with us and for one year thereafter. The non-compete restriction prohibits activities for competitive enterprises that are similar to those performed by the managing director for us. These restrictions apply during employment with us and until the six-month anniversary of termination of employment, except that they expire on the first anniversary of various change of control or liquidity events and are limited to 30 days following termination of employment if the termination is by the managing director for good reason or by us without cause.

The Retention Agreements with Named Executive Officers

In connection with this offering, the named executive officers have entered into retention agreements with Lazard Group, on behalf of itself, us and our other affiliates, that contain provisions relating to their participation in this offering and the terms of the LAZ-MD Holdings exchangeable interests and restrictive covenants that are substantially similar to those of the form of retention agreement executed by other managing directors, as well as the additional terms described below. In the case of Mr. Wasserstein, the provisions relating to his participation in this offering are set forth in a separate agreement relating to the reorganization of Lazard, which agreement, for purposes of this description, is deemed to be part of his retention agreement, and which agreement, together with his retention agreement, replaces in its entirety Mr. Wasserstein's previous employment agreement with Lazard Group.

Compensation and Employee Benefits

The retention agreement with each of Messrs. Wasserstein and Golub provides for a guaranteed level of compensation during the term of each such agreement, which term continues until the third anniversary of this offering, and the retention agreement with each of Messrs. Castellano, Hoffman and Ward provides for a guaranteed level of compensation through the 2007 calendar year, in each case, so long as the applicable named executive officer continues to provide services to us. Mr. Wasserstein will be eligible to receive an annual base salary of no less than \$4.8 million during the three-year period following this offering, and each of Messrs. Castellano, Golub, Hoffman and Ward will be eligible to receive a guaranteed total compensation amount for each of 2005, 2006 and 2007 (until the third anniversary of this offering for Mr. Golub) of no less than \$2 million, \$3 million, \$2.25 million and \$3 million, respectively, with at least \$500,000, \$1.5 million, \$600,000 and \$1.5 million, respectively, of such guaranteed total compensation amount payable as annual base salary, except that the guaranteed compensation amount for Mr. Ward can be reduced in connection with reductions applicable to the majority of our deputy chairmen.

In addition, Mr. Wasserstein's agreement provides that until the third anniversary of this offering, he will participate in the employee benefit plans and programs generally applicable to our most senior executives on terms no less favorable than those provided to such senior executives, except that his participation in equity-related, bonus, incentive, profit sharing or deferred compensation plans will require the consent of our board of directors, and provides in addition that he will be entitled to

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perquisites and fringe benefits no less favorable than those provided to him by Lazard Group immediately prior to this offering, to the extent not inconsistent with our policies as in effect from time to time, which perquisites and fringe benefits are similar to those customarily provided to chief executive officers. The retention agreements with each of Messrs. Castellano, Golub, Hoffman and Ward provide that they will be entitled to participate in employee retirement and welfare benefit plans and programs of the type made available to our most senior executives.

Payments and Benefits Upon Certain Terminations of Service

Each retention agreement with a named executive officer provides for certain severance benefits in the event of a termination prior to the third anniversary of this offering by us other than for cause or by the named executive officer for good reason (which we refer to below as a qualifying termination). The level of the severance benefits depends on whether the applicable termination occurs prior to or following a change in control of Lazard Ltd.

In the event of a qualifying termination of a named executive officer prior to a change in control, the named executive officer would be entitled to receive (i) any unpaid base salary accrued through the date of termination, (ii) any earned but unpaid bonuses for years completed prior to the date of termination, (iii) a prorated bonus for the year of termination and (iv) a severance payment in the following amounts: Mr. Wasserstein, two times base salary; Messrs. Castellano, Golub, Hoffman and Ward, one-and-a-half times (two times in the case of Mr. Golub) the greater of such named executive officer's guaranteed compensation amount or such named executive officer's base salary plus average bonus for the two calendar years preceding the year of termination. Upon such a qualifying termination, the named executive officer and his eligible dependents would generally continue to be eligible to participate in our medical and dental benefit plans, on the same basis as in effect immediately prior to the executive's date of termination (which currently requires the named executive officer to pay the full cost of the premiums), for the following periods: for Mr. Wasserstein, for the remainder of his life and the life of his current spouse; for Mr. Golub, until the later to occur of the second anniversary of termination of service and February 29, 2008; for each of Messrs. Castellano, Hoffman and Ward, for a period of 18 months following the date of termination of service. The period of such medical and dental benefits continuation would generally be credited towards the named executive officer's credited age and service for purpose of our retiree medical program.

As a separate matter, Lazard Group has and will have granted additional unallocated working member interests and reallocated working member interests to current working members, including its named executive officers, as described under *Certain Relationships and Related Transactions* *Certain Relationships with our Directors and Executive Officers* *Transactions with Our Working Members*.

In the event of a qualifying termination of a named executive officer on or following a change in control, the named executive officer would receive the severance payments and benefits described in the preceding paragraph, except that the severance payments would be in the following amounts: Mr. Wasserstein, three times base salary; Messrs. Castellano, Golub, Hoffman and Ward, three times the greater of such named executive officer's guaranteed compensation amount or such named executive officer's base salary plus average bonus for the two calendar years preceding the year of termination. In addition, each of the named executive officers and his eligible dependents would be eligible for continued participation in our medical and dental benefit plans and receive age and service credit, as described above, except the applicable period for each of Messrs. Castellano, Golub, Hoffman and Ward would be 36 months following the date of termination of service.

The retention agreement with Mr. Wasserstein provides that in the event his service is terminated due to his death or disability, he and/or his current spouse, as applicable, would continue to be eligible for the medical and dental benefits described above.

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The retention agreement with Mr. Golub provides that if his service terminates due to his death or disability prior to the third anniversary of this offering or upon the expiration of his agreement as of the third anniversary of this offering, he would be entitled to a prorated bonus for the year of termination.

Change in Control Excise Tax Gross-up

Each retention agreement with a named executive officer provides that in the event that the named executive officer's receipt of any payment made by us under the retention agreement or otherwise are subject to the excise tax imposed under section 4999 of the Internal Revenue Code of 1986, as amended, or the Code, an additional payment will be made to restore the executive to the after-tax position that he would have been in if the excise tax had not been imposed.

Provisions Relating to the Reorganization and Restrictive Covenants

Generally, the retention agreements with the named executive officers contain restrictive covenants and provisions relating to their participation in the offering that are substantially similar to those in the retention agreements signed by our other managing directors. However, the scope of the covenants applicable to Mr. Wasserstein limiting his ability to compete with us and to solicit our clients are generally more restrictive than those applicable to our other managing directors, although Mr. Wasserstein may continue his relationship with and ownership interest in Wasserstein & Co., LP on terms consistent with past practice without violating these covenants, so long as such activities do not significantly interfere with his performance of his duties as our chairman and chief executive officer. In addition, the nondisparagement provision between Mr. Wasserstein and us is reciprocal.

Under each retention agreement with a named executive officer, a termination by the named executive officer for good reason would be treated as a termination by us without cause for purposes of the duration of the restrictive covenants and the provisions governing the timing of exchangeability of LAZ-MD Holdings exchangeable interests into shares of our common stock.

See *Arrangements With Our Managing Directors - The Retention Agreements in General* Participation in this Offering for a chart setting forth the interests of each named executive officer.

Bonus Plan

To align employee and stockholder interests, we intend to adopt the 2005 Bonus Plan for purposes of determining annual bonuses for our senior executives. The compensation committee will have full direct responsibility and authority for determining our Chief Executive Officer's compensation under the plan and will make recommendations with regard to the compensation of our other executive officers under the plan. Subject to overall compensation limits as determined from time to time and, with respect to plan participants, the terms of the plan, our Chief Executive Officer will have responsibility for determining the compensation of all employees except as provided above.

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Participants in the plan will be designated during the first three months of each fiscal year, although participants may be added or removed at any time prior to payment of bonuses for the fiscal year. The actual size of the bonus pool will be determined at the end of each fiscal year, taking into account our results of operations, stockholder return and/or other measures of our financial performance or of the financial performance of one or more of our subsidiaries or divisions. A target maximum ratio of aggregate compensation and benefits expense for the year (including annual cash bonus payments under the plan) to annual revenue or income (or to similar measures of corporate profitability) may also be taken into account, and it is currently anticipated that this will initially be based on our current target ratio of compensation and benefits expense to operating revenue of 57.5%. The bonus pool will be allocated among the participants in the plan with respect to each fiscal year. This allocation may be made at any time prior to payment of bonuses for such year, and may take into account any factors deemed appropriate, including, without limitation, assessments of individual, subsidiary or division performance and input of management.

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Amounts payable under the bonus plan will be satisfied in cash or through equity awards granted under our equity incentive plan.

The Equity Incentive Plan

The following is a description of the material terms of the Equity Incentive Plan (which we refer to in this section as the *plan*). You should, however, refer to the exhibits that are a part of the registration statement for a copy of the plan. See *Where You Can Find More Information*.

Purpose

The purposes of the plan are to attract, retain and motivate key employees and directors of, and consultants and advisors to, Lazard and to align the interests of key employees, directors, consultants and advisors with those of stockholders through equity-based compensation and enhanced opportunities for ownership of shares of our common stock. We currently expect that after this offering we will pay a portion of our bonus compensation in the form of equity awards of Lazard Ltd that will be subject to vesting and other terms. We do not currently intend to grant any stock options in respect of shares of our common stock during the first two years following this offering unless and to the extent that we determine that such grants would be appropriate for European employees or managing directors under agreed upon circumstances.

Administration

The plan will be administered by the compensation committee or such other committee of our board of directors as our board of directors may from time to time establish. The committee administering the plan will be referred to in this description as the *committee*. Among other things, the committee will have the authority to select individuals to whom awards may be granted, to determine the type of award as well as the number of shares of common stock to be covered by each award, and to determine the terms and conditions of any such awards. All determinations by the committee or its designee under the plan will be final, binding and conclusive.

Eligibility

Persons who serve or agree to serve as our officers, employees, directors, consultants or advisors who are responsible for, or contribute to, our management, growth and profitability are eligible to be granted awards under the plan. Holders of equity-based awards issued by a company acquired by us or with which we combine will be eligible to receive substitute awards under the plan.

Shares Available

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Subject to adjustment, the plan authorizes the issuance of up to 25,000,000 shares of common stock pursuant to the grant or exercise of stock options, stock appreciation rights (SARs), restricted stock, stock units and other equity-based awards. If any award is forfeited or if any stock option or SAR terminates without being exercised, or if any SAR is exercised for cash, shares of common stock subject to such awards will be available for distribution in connection with awards under the plan. If the option price of any stock option granted under the plan is satisfied by delivering shares of common stock to us (by actual delivery or attestation), only the number of shares of common stock issued net of the shares of common stock delivered or attested to will be deemed delivered for purposes of determining the maximum number of shares of common stock available for delivery under the plan. To the extent any shares are not delivered to a participant because such shares are used to satisfy any applicable tax-withholding obligation, such shares will not be deemed to have been delivered for purposes of determining the maximum number of shares of common stock available for delivery under

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the plan. The shares subject to grant under the plan are to be made available from authorized but unissued shares or from shares held by our subsidiaries, as determined from time to time by our board of directors.

Change in Capitalization or Change in Control

The plan provides that, in the event of any change in corporate capitalization, such as a stock split, or any fundamental corporate transaction, such as any merger, amalgamation, consolidation, separation, spinoff or other distribution of property (including any extraordinary cash or stock dividend), or any reorganization or partial or complete liquidation of us, the committee or the board of directors may make such substitution or adjustment as it deems appropriate in its discretion in the aggregate number and kind of shares reserved for issuance under the plan, in the exercise price of shares subject to outstanding stock options and SARs, and in the number and kind of shares subject to other outstanding awards granted under the plan. Any adjustments described in the immediately preceding sentence that are considered deferred compensation subject to Section 409A of the Code will be made in such manner as to ensure that after such adjustment, the awards either continue not to be subject to, or comply with the requirements of, Section 409A of the Code. The plan also provides that in the event of a change in control of us, unless otherwise provided for in the individual award agreement: (i) SARs and stock options outstanding as of the date of the change in control, which are not then exercisable and vested will become fully exercisable and vested, (ii) the restrictions and deferral limitations applicable to restricted stock will lapse and such restricted stock will become free of all restrictions and fully vested, and (iii) all stock units will vest in full and be immediately settled.

Types of Awards

As indicated above, several types of awards can be made under the plan. A summary of these grants is set forth below.

Stock Options

Eligible individuals can be granted non-qualified stock options under the plan. The exercise price of such options cannot be less than 100% of the fair market value of the stock underlying the options on the date of grant. The term of the options will be determined by the committee. Optionees may pay the exercise price in cash or, if approved by the committee, in common stock (valued at its fair market value on the date of exercise) or a combination thereof, or, to the extent permitted by applicable law, by cashless exercise through a broker or by withholding shares otherwise receivable on exercise. The committee will determine the vesting and exercise schedule of options. Unless determined otherwise by the committee in its discretion, unvested options terminate upon termination of service, and vested options will generally remain exercisable for one year after the optionee's death, three years after the optionee's termination for disability, five years after the optionee's retirement and 90 days after the optionee's termination for any other reason (other than for cause, in which case all options will terminate). Unless determined otherwise by the committee, if an optionee's service terminates during the two-year period following a change in control (other than for cause), options held by the optionee will remain exercisable until the third anniversary of the change in control. Notwithstanding the foregoing rules, in no event will an option remain exercisable following the expiration of its original term.

SARs

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SARs may be granted as stand-alone awards or in conjunction with an option. An SAR entitles the holder to receive, upon exercise, the excess of the fair market value of a share of common stock at the time of exercise over the exercise price of the applicable SAR multiplied by the specified number of

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shares of common stock in respect of which the SAR has been exercised. Such amount will be paid to the holder in stock (valued at its fair market value on the date of exercise), cash or a combination thereof, as the committee may determine. An SAR granted in conjunction with an option is exercisable only when and to the extent the related option is exercisable. An option will be cancelled to the extent that its related SAR is exercised or cancelled, and an SAR will be cancelled to the extent the related option is exercised or cancelled. Unless determined otherwise by the committee, unvested SARs terminate upon termination of service, and vested SARs generally will remain exercisable for one year after the holder's death, three years after the holder's termination for disability, five years after the holder's termination due to retirement and 90 days after the holder's termination for any other reason (other than for cause, in which case all SARs will terminate). Unless determined otherwise by the committee, if a holder's service terminates during the two-year period following a change in control (other than for cause), SARs held by the holder will remain exercisable until the third anniversary of the change in control. Notwithstanding the foregoing rules, in no event will an SAR remain exercisable following the expiration of its original term. Generally, stand-alone SARs are subject to the same terms and conditions as stock options as described above.

Restricted Stock

Restricted stock may be granted with such restrictions and restricted periods as the committee may determine. The committee may provide that a grant of restricted stock will vest upon the continued service of the participant or the satisfaction of applicable performance goals. Restricted stock is generally forfeited upon termination of service, unless otherwise provided by the committee. Other than such restrictions on transfer and any other restrictions the committee may impose, the participant will have all the rights of a stockholder with respect to the restricted stock award, although the committee may provide for the automatic deferral or reinvestment of dividends or impose vesting requirements on dividends.

Stock Units

The committee may grant stock unit awards, which represent a right to receive cash based on the fair market value of a share of common stock or a share of common stock. The committee may provide that a grant of stock units will vest upon the continued service of the participant or the satisfaction of applicable performance goals. Stock units that are not vested are generally forfeited upon termination of service, unless otherwise provided by the committee. Holders of stock units do not have the rights of a stockholder with respect to the award unless and until the award is settled in shares of common stock, although the committee may provide for dividend equivalent rights.

Other Equity-Based Awards

The committee may grant other types of equity-based awards based upon Lazard common stock, including unrestricted stock and dividend equivalent rights.

Transferability

Awards generally will not be transferable, except by will and the laws of descent and distribution or to the extent otherwise permitted by the committee.

Duration of the Plan

The plan will have a term of ten years from the date of its adoption by our board of directors.

Amendment and Discontinuance

The plan may be amended, altered or discontinued by the board of directors, but, except as required by applicable law, stock exchange rules, tax rules or accounting rules, no amendment, alteration or discontinuance may materially impair the rights of an optionee under an option or a

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recipient of an SAR, restricted stock award, stock unit award or other equity-based award previously granted without the optionee's or recipient's consent. The plan may not be amended without stockholder approval to the extent such approval is required by applicable law or stock exchange rules. Notwithstanding the foregoing, the committee may grant awards to eligible participants who are subject to legal or regulatory provisions of countries or jurisdictions outside the U.S., on terms and conditions different from those specified in the plan, as it determines to be necessary, and may make such modifications, amendments, procedures, or subplans as are necessary to comply with such legal or regulatory provisions.

Federal Income Tax Consequences

The following discussion is intended only as a brief summary of the material U.S. federal income tax rules that are generally relevant to non-qualified stock options as the plan does not provide for the grant of incentive stock options within the meaning of Section 422 of the Code. The laws governing the tax aspects of awards are complex and such laws are subject to change.

Upon the grant of a nonqualified option, the optionee will not recognize any taxable income and we will not be entitled to a deduction. Upon the exercise of such an option or related SAR, the excess of the fair market value of the shares acquired upon the exercise of the option or SAR over the exercise price of the option or the cash paid under an SAR will constitute compensation taxable to the optionee as ordinary income. We, or our applicable affiliate, in computing our U.S. federal income tax, will generally be entitled to a deduction in an amount equal to the compensation taxable to the optionee.

Participatory Interests in Lazard Group

We also intend to grant participatory interests in Lazard Group to certain of our current and future managing directors in connection with the separation and recapitalization transactions. The participatory interests will be discretionary profits interests that are intended to enable Lazard Group to compensate our managing directors in a manner consistent with historical compensation practices. Initially, 20% of Lazard Group's adjusted operating income (as defined below) will be distributable among our current managing directors holding Lazard Group participatory interests in amounts as determined in our sole discretion. We may elect to withhold all or part of the distributions otherwise payable in respect of a participatory interest (subject to minimum distributions in respect of taxes). Any associated capital interests will be surrendered in the event the managing director ceases to be employed by Lazard Group. The 20% figure will be set forth in the Lazard Group operating agreement and will be subject to adjustment if the total amount allocable to the holders of the participatory interests exceeds 8% of adjusted operating revenue (as defined below), in which case the aggregate percentage interest will be reduced to equal the amount determined by dividing 8% of adjusted operating revenue by adjusted operating income. For purposes of the above, adjusted operating revenue is defined as revenue less interest expense other than with respect to operating interest expense and extraordinary gains, and adjusted operating income is defined as the difference between adjusted operating revenue and adjusted operating expenses, which, in turn, are defined as expenses exclusive of compensation expense paid to managing directors (other than LAM managing directors), minority interest, interest expense other than operating interest expense, extraordinary losses and income taxes. Amounts distributed pursuant to the participatory interests will be accounted for as part of our compensation and benefits expense and, therefore, included in the computation of our target ratio of compensation expense-to-operating revenue.

This program is terminable, in whole or in part, at any time at our election. The participatory interests will carry no other rights, including voting or liquidation rights or preferences, beyond those incident to such distributions, must be forfeited upon a holder ceasing to be a managing director and will not be transferable.

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The following table sets forth as of the date of this prospectus certain information regarding the beneficial ownership of our common stock.

To our knowledge, except as indicated in the footnotes to this table and pursuant to applicable community property laws, the persons named in the table have sole voting and investment power with respect to all shares of common stock beneficially owned by them. The following table reflects the principal stockholders of Ltd immediately following this offering. Except as indicated below, the address for each listed stockholder is c/o Lazard Group LLC, 30 Rockefeller Plaza, New York, New York 10020.

Name and Address of Beneficial Owner	Number of Shares		Percentage of Shares of Common Stock Beneficially Owned	Percentage of Voting Power (b)
	of Class B	Number of Shares		
	Common Stock Beneficially Owned	of Common Stock Beneficially Owned (a)		
5% Stockholders:				
LAZ-MD Holdings 30 Rockefeller Plaza New York, New York 10020	1	0		66.35%(e)(f)
IXIS (c) 47, Quai d Austerlitz 75648 Paris Cedex 13 France		1,923,077	1.92%	1.92%
Directors, director nominees and named executive officers:				
Bruce Wasserstein (h)		11,694,083	11.69%	11.69%(d)
Robert Charles Clark		0		
Ellis Jones (h)		8,355,198	8.36%	8.36%
Vernon E. Jordan, Jr.		383,715	0.38%	0.38%
Anthony Orsatelli (c)(i)		1,923,077	1.92%	1.92%
Michael J. Castellano		478,314	0.48%	0.48%(d)
Steven J. Golub		1,806,966	1.81%	1.81%(d)
Scott D. Hoffman		584,607	0.58%	0.58%(d)
Charles G. Ward, III		1,594,382	1.59%	1.59%(d)
All directors and executive officers as a group (nine persons) (g)		18,465,144	18.45%	18.45%

(a) The Lazard Group common membership interests issued to LAZ-MD Holdings are exchangeable for shares of common stock on a one-for-one basis, as described under The Separation and Recapitalization Transactions and the Lazard Organizational Structure The Separation and Recapitalization Transactions The Recapitalization of LAZ-MD Holdings and Lazard Group. As each of these Lazard Group common membership interests is associated with a LAZ-MD Holdings exchangeable interest, LAZ-MD Holdings disclaims beneficial ownership of the shares of common stock into which the Lazard Group common membership interests are exchangeable.

(b) The percentage of voting power includes both the voting power of common stock and Class B common stock in the aggregate.

(c)

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The 1,923,077 shares of our common stock that IXIS is expected to acquire as part of the additional financing transactions generally may not be transferred for a period of 545 days from the date of purchase. Excludes _____ to _____ shares of our common stock underlying the equity security units to be issued to IXIS pursuant to the IXIS investment agreement. Were IXIS to exchange these securities at the price at which the common stock is being offered pursuant to this prospectus, it would beneficially own between _____ % and _____ % of the common stock, including the shares of common stock into which the Lazard Group common membership interests are exchangeable.

- (d) For each of the named executive officers (except for a portion of Mr. Wasserstein's interest), the percentage also includes shares of our common stock that are issuable upon exchange of the LAZ-MD Holdings exchangeable interests held by such person and, in the case of Mr. Wasserstein, the Wasserstein family trusts. With respect to Mr. Wasserstein, includes 1,266,190 shares held directly. Voting of the LAZ-MD Holdings exchangeable interests are subject to voting provisions in the LAZ-MD Holdings stockholders' agreement and are included in the 66.3% voting interest of LAZ-MD Holdings. See Certain Relationships and Related Transactions LAZ-MD Holdings Stockholders Agreement. The interests are included on an as-exchanged basis and absent an acceleration event, these interests will be exchangeable pro-rata on the third, fourth and fifth anniversaries of the offering assuming satisfaction of service requirements and compliance with covenants as described in Management Arrangements with our Managing Directors The Retention Agreements in General and The Retention Agreements with Named Executive Officers.

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- (e) LAZ-MD Holdings holds the single outstanding share of Class B common stock, which immediately following this offering and the additional financing transactions will represent approximately 66.3% of the voting stock of all shares of our voting stock (or approximately 63.4% of the voting power if the underwriters' over-allotment is fully exercised).

- (f) The single share of Class B common stock held by LAZ-MD Holdings generally will entitle our managing directors to one vote per share of each LAZ-MD Holdings exchangeable interest on a pass through basis. See "The Separation and Recapitalization Transactions and the Lazard Organizational Structure," "The Separation and Recapitalization Transactions," "Exchange of Working Member Interests for LAZ-MD Holdings Interests," and "Description of Capital Stock" and "Certain Relationships and Related Transaction," "LAZ-MD Holdings Stockholders Agreement."

- (g) Includes 66,346,154 shares of our common stock that are issuable upon exchange of the LAZ-MD Holdings exchangeable interests held by such persons.

- (h) Each of Messrs. Wasserstein's and Jones's share ownership includes 8,355,198 shares of our common stock that are issuable upon exchange of the LAZ-MD Holdings exchangeable interests held by the Wasserstein family trusts for the benefit of his family and over which he does not have control. The voting power over the shares of our common stock issuable upon exchange of the LAZ-MD Holdings exchangeable interests held by the Wasserstein family trusts is vested in Mr. Jones, who will serve on our board of directors, and members of Mr. Wasserstein's family, as trustees. Neither Mr. Wasserstein nor Mr. Jones has any beneficial or other ownership interest in these shares.

- (i) Includes the 1,923,077 shares of our common stock that IXIS is expected to acquire as part of the additional financing transactions, which generally may not be transferred for a period of 545 days from the date of purchase. Excludes _____ to _____ shares of our common stock underlying the exchangeable debt securities to be issued to IXIS pursuant to the IXIS investment agreement. Mr. Orsatelli disclaims beneficial ownership of the securities issued pursuant to the IXIS investment agreement as described in footnote (c) above.

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CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Relationship with LAZ-MD Holdings and LFCM Holdings

Immediately following the completion of the separation and recapitalization transactions, LAZ-MD Holdings will control our company. LAZ-MD Holdings will own approximately 66.3% of the voting power of all shares of our voting stock (or approximately 63.4% of the voting power if the underwriters' over-allotment option is fully exercised) and will thereby be able to control the election of our directors. LAZ-MD Holdings' voting power in our company is intended to mirror its economic interest in Lazard Group, and its voting power will decrease over time in connection with the exchange of the LAZ-MD Holdings exchangeable interests for shares of our common stock. The working members, including our managing directors who hold working member interests at the time of the separation, will own LAZ-MD Holdings and will, through the LAZ-MD Holdings stockholders' agreement, have the right to cause LAZ-MD Holdings to vote its Class B common stock on an as-if-exchanged basis. In addition, LFCM Holdings, which is the entity that will own and operate the separated businesses, will no longer be a subsidiary of either Lazard Group or LAZ-MD Holdings. It will be owned by the working members, including our managing directors who will be members of LAZ-MD Holdings. See Risk Factors Risks Related to the Separation Lazard Ltd will be controlled by LAZ-MD Holdings and, through the LAZ-MD stockholders' agreement, by the working members, whose interests may differ from those of other stockholders, and The Separation and Recapitalization Transactions and the Lazard Organizational Structure.

We intend to enter into several agreements with LAZ-MD Holdings and LFCM Holdings to effect the separation and recapitalization transactions and to define and regulate the relationships of the parties after the closing of those transactions. Except as described in this section, we do not expect to have any material arrangements with LAZ-MD Holdings and LFCM Holdings after the completion of the separation and recapitalization transactions other than ordinary course business relationships on arm's length terms.

Agreements with LAZ-MD Holdings and LFCM Holdings

We have provided below summary descriptions of the master separation agreement and the other key related agreements we will enter into with LAZ-MD Holdings and LFCM Holdings prior to the closing of this offering. These agreements effect the separation and recapitalization transactions and also provide a framework for our ongoing relationship with LAZ-MD Holdings and LFCM Holdings. These agreements include:

the master separation agreement,

the employee benefits agreement,

the insurance matters agreement,

the license agreement,

the administrative services agreement,

the business alliance agreement, and

the tax receivable agreement.

The descriptions set forth below, which summarize the material terms of these agreements, are not complete. You should read the full text of these agreements, which will be filed with the SEC as exhibits to the registration statement of which this prospectus is a part. See [Where You Can Find More Information](#).

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Master Separation Agreement

We will enter into a master separation agreement with Lazard Group, LAZ-MD Holdings and LFCM Holdings. The master separation agreement will contain key provisions relating to the separation and recapitalization transactions, including this offering, and the relationship among the parties after completion of this offering. The master separation agreement will identify the assets, liabilities and businesses of Lazard Group that will be included in the separated businesses being transferred to LFCM Holdings and describe when and how the separation will occur. It also will contain the conditions that must be satisfied, or waived by Lazard Group, prior to completion of the separation and recapitalization, including this offering. In addition, the master separation agreement will regulate aspects of the relationship among the parties after this offering, including the exchange mechanics of the LAZ-MD Holdings exchangeable interests. We will execute the master separation agreement and ancillary agreements before the closing of this offering.

The Separation and Recapitalization Transactions

The Separation. The master separation agreement will provide that, prior to the closing of this offering and subject to satisfaction of the conditions described below, Lazard Group will complete the separation by:

forming LAZ-MD Holdings as the holding company of Lazard Group pursuant to the historical partner transaction agreement,

transferring the separated businesses to LFCM Holdings, which will have members' equity of \$245 million, and

distributing all of the interests in LFCM Holdings to LAZ-MD Holdings.

Immediately after completion of the separation,

all of the members of Lazard Group immediately prior to the separation will be members of LAZ-MD Holdings and hold interests in LAZ-MD Holdings, including, in the case of the working members, the LAZ-MD Holdings exchangeable interests,

Lazard Group will be a wholly-owned subsidiary of LAZ-MD Holdings, and

LFCM Holdings will be a wholly-owned subsidiary of LAZ-MD Holdings.

Pursuant to the master separation agreement, the parties will cooperate to effect any transfers of the assets, liabilities or businesses included in the separated businesses but not completed on the closing date of the separation due to any approval or consent issues as promptly following that date as is practicable. Until these transfers can be completed, the party retaining any such assets, liabilities or businesses will act as a custodian and trustee on behalf of LFCM Holdings with respect to those assets, liabilities or businesses. In an effort to place each party, insofar as reasonably possible, in the same position as that party would

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have been had the contributions or assumptions occurred at the time contemplated by the master separation agreement, the master separation agreement will provide that the benefits derived or expenses or liabilities incurred from those assets, liabilities or businesses will be passed on to LFCM Holdings as if the transfers had occurred as contemplated. In addition, we will retain and manage on behalf of LFCM Holdings selected assets relating to the LFCM Holdings business which we have determined are not capable of being transferred. The master separation agreement will also contain provisions regarding LFCM Holdings' funding obligations with respect to our U.K. pension plan.

It is our intention that, immediately after the separation, LFCM Holdings will have \$245 million of members' equity. After the separation, Lazard Group will prepare a balance sheet setting forth the members' equity of LFCM Holdings as of the separation. If that amount of members' equity exceeds

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the target of \$245 million of members' equity, LFCM Holdings will pay to Lazard Group an amount of cash equal to the excess, and if that amount is less than the target, Lazard Group will pay to LFCM Holdings an amount of cash equal to the shortfall.

The master separation agreement will provide that Lazard Group will license or sublease to LFCM Holdings certain office space, including office space that is used by the separated businesses. This will include subleasing or licensing approximately 2,500 square feet of space under the lease in London located at 50 Stratton Street to LFCM Holdings, which LFCM Holdings expects to further sublease to third parties. LFCM Holdings is also providing certain indemnities relating to the costs of excess space of approximately 49,200 square feet in the same premises. In addition, LFCM will be providing an indemnity relating to the lease of former London premises, abandoned in 2003 and expiring in 2008, against any further costs not already taken into account in the liability relating to such premises in Lazard Group's consolidated financial statements. LFCM Holdings will pay to Lazard Group lease costs of up to a maximum of \$29 million in the aggregate under the two U.K. lease indemnity arrangements. As reflected in the notes to Lazard Group's consolidated financial statements, as of December 31, 2004, our principal U.K. pension plan had a deficit of approximately \$95 million under current actuarial assumptions. This deficit would ordinarily be funded over time. We are in discussions with the trustees of that pension plan aimed at reaching agreement regarding a deficit reduction plan as well as asset allocation. In considering their duties to beneficiaries, the trustees also have the power to change the asset allocation. Any changes in the asset allocation could increase the unfunded liability that would be funded over time, depending on asset mix, any increase in liabilities and returns. It is also the case that the relevant pensions regulator in the U.K. may have the power to require contributions to be made to plans, and to impose support in respect of the funding of plans by related companies other than the direct obligors. We anticipate that LFCM Holdings will make payments of approximately 30 million British pounds in the aggregate to Lazard Group or one of its subsidiaries to reduce the pension plan deficit.

The Recapitalization. The master separation agreement will provide that, subject to satisfaction of the conditions described below, the parties will complete the recapitalization by:

closing this offering and the additional financing transactions,

causing Lazard Ltd to purchase Lazard Group common membership interests with the net proceeds of this offering,

redeeming historical partner interests and redeemable preferred stock held by the historical partners pursuant to the historical partner transaction agreement, and

having LAZ-MD Holdings distribute all of the interests in LFCM Holdings to its members.

Pursuant to the master separation agreement, the redemption of the historical partners' interests will occur in two steps. LAZ-MD Holdings will redeem the two classes of LAZ-MD Holdings interests held by the historical partners for interests in Lazard Group, and Lazard Group will immediately thereafter redeem those Lazard Group interests for the cash redemption payment or other consideration as provided in the historical partner transaction agreement or for shares of our common stock as described in "The Separation and Recapitalization Transactions and The Lazard Organizational Structure - The Separation and Recapitalization Transactions - The Recapitalization of LAZ-MD Holdings and Lazard Group."

Immediately after completion of the recapitalization, including the closing of this offering and the additional financing transactions,

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LAZ-MD Holdings will hold 66.3% of the Lazard Group common membership interests (or 63.4% if the underwriters over-allotment option is exercised in full),

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Lazard Ltd will indirectly hold 33.7% of the Lazard Group common membership interests (or 36.6% if the underwriters over-allotment option is exercised in full),

LAZ-MD Holdings will hold our Class B common stock, which will entitle it to 66.3% of the voting power of, and no economic rights in, Lazard Ltd (or 63.4% of the voting power if the underwriters over-allotment option is exercised in full), and

the working members will be the sole members of each of LAZ-MD Holdings and LFCM Holdings.

The master separation agreement provides that the separation and recapitalization transactions will be completed on the closing date of this offering.

Conditions to the Separation and Recapitalization Transactions

The master separation agreement will provide that the separation and recapitalization transactions, including the closing of this offering, are subject to several conditions that must be satisfied, or waived by Lazard Group, including:

each of the conditions to the separation set forth in the historical partner transaction agreement shall have been satisfied or waived in accordance with the historical partner transaction agreement, and the historical partner transaction agreement shall not have been terminated and shall be in full force and effect,

the board of directors of Lazard Group shall have given final approval of the separation and the recapitalization transactions, which approval the board of directors may give in its sole and absolute discretion,

the SEC shall have declared effective the registration statements relating to this offering and the ESU offering, and no stop order shall be in effect with respect to those registration statements,

the actions and filings necessary or appropriate with state securities and blue sky laws and any comparable foreign laws shall have been taken and where applicable become effective or been accepted,

the NYSE shall have accepted for listing the shares of our common stock to be issued in this offering,

no order by any court or other legal restraint preventing completion of any of the separation or recapitalization transactions shall be in effect,

all third-party consents and governmental approvals required in connection with the separation and recapitalization transactions shall have been received, and

neither the master separation agreement nor the historical partner transaction agreement shall have been terminated and shall be in full force and effect.

Relationship Among Lazard Ltd, Lazard Group, LAZ-MD Holdings and LFCM Holdings

The master separation agreement will contain various provisions governing the relationship among Lazard Ltd, Lazard Group, LAZ-MD Holdings and LFCM Holdings after the completion of the separation and recapitalization transactions, including with respect to the following matters.

Limitation on Scope of LAZ-MD Holdings Operations. The master separation agreement will provide that LAZ-MD Holdings will not engage in any business other than to act as the holding company for the working members' interests in Lazard Group and our Class B common stock and actions incidental thereto, except as otherwise agreed by Lazard Ltd.

Parity of Lazard Group Common Membership Interests and Our Common Stock. The master separation agreement will also set forth the intention of Lazard Group and Lazard Ltd that the number

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of Lazard Group common membership interests held by Lazard Ltd (or its subsidiaries) will at all times be equal in number to the number of outstanding shares of our common stock, subject to customary anti-dilution adjustments.

Lazard Ltd Expenses. The master separation agreement will also set forth the intention of Lazard Group to reimburse Lazard Ltd for its costs and expenses incurred in the ordinary course of business.

LAZ-MD Holdings Exchangeable Interests

Terms of Exchange. The master separation agreement will set forth the terms and arrangements with respect to the LAZ-MD Holdings exchangeable interests. See Management Arrangements with Our Managing Directors The Retention Agreements in General LAZ-MD Holdings Exchangeable Interests.

Accelerated Exchange. The master separation agreement will provide that each of LAZ-MD Holdings and our subsidiaries that directly hold our Lazard Group common interests, upon the approval of our board of directors, will have the power to accelerate the exchange of LAZ-MD Holdings exchangeable interests for our common shares after the first anniversary of the closing of this offering. In addition, the exchangeability of the LAZ-MD Holdings exchangeable interests will be accelerated in connection with a change in control of Lazard Ltd, as defined in our 2005 equity incentive plan, after the first anniversary of the closing of this offering, unless otherwise determined by our board of directors.

Transfers of LAZ-MD Holdings Exchangeable Interests. Lazard Group will be empowered to authorize transfers of LAZ-MD Holdings exchangeable interests to trusts or similar entities for estate planning or charitable purposes, which transfers will otherwise generally be prohibited by the terms of the LAZ-MD Holdings exchangeable interests in the absence of such authorization. In addition, Lazard Group will be entitled to permit the transfer of LAZ-MD Holdings exchangeable interests to other holders of LAZ-MD Holdings exchangeable interests or pursuant to a repurchase of LAZ-MD Holdings exchangeable interests.

Indemnification

In general, under the master separation agreement, Lazard Group will indemnify LFCM Holdings, LAZ-MD Holdings and their respective representatives and affiliates for any and all losses (including tax losses) that such persons incur to the extent arising out of or relating to our business (both historically and in the future) and any and all losses that LFCM Holdings, LAZ-MD Holdings and their respective representatives and affiliates incur arising out of or relating to Lazard Group's or Lazard Ltd's breach of the master separation agreement.

In general, LFCM Holdings will indemnify Lazard Ltd, Lazard Group, LAZ-MD Holdings and their respective representatives and affiliates for any and all losses (including tax losses) that such persons incur arising out of or relating to the separated businesses and the businesses conducted by LFCM Holdings (both historically and in the future) and any and all losses that Lazard Ltd, Lazard Group, LAZ-MD Holdings and their respective representatives or affiliates incur arising out of or relating to LFCM Holdings' breach of the master separation agreement.

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In general, under the master separation agreement, LAZ-MD Holdings will indemnify Lazard Ltd, Lazard Group, LFCM Holdings and their respective representatives and affiliates for any and all losses that such persons incur to the extent arising out of or relating to LAZ-MD Holdings breach of the master separation agreement.

All indemnification amounts would be reduced by any insurance proceeds and other offsetting amounts recovered by the indemnitee. The master separation agreement will specify procedures with respect to claims subject to indemnification and related matters.

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Access to Information

Under the master separation agreement, the following terms govern access to information:

before and after the closing date of the separation, subject to applicable confidentiality provisions and other restrictions, the parties will each give the other any information within that company's possession that the requesting party reasonably needs (i) to comply with requirements imposed on the requesting party by a governmental or regulatory authority, (ii) for use in any proceeding or to satisfy audit, accounting, tax or similar requirements, or (iii) to comply with its obligations under the master separation agreement or the ancillary agreements,

after the closing date of the separation and recapitalization transactions, LAZ-MD Holdings and LFCM Holdings will provide to Lazard Ltd and Lazard Group, at no charge, all financial and other data and information that Lazard Ltd or Lazard Group determines is necessary or advisable in order to prepare its financial statements and reports or filings with any governmental or regulatory authority,

after the closing date of the separation and recapitalization transactions, the parties will each use reasonable best efforts to provide assistance to the other parties for litigation and to make available to the other parties, their directors, officers, other employees and agents as witnesses, in legal, administrative or other proceedings, and will cooperate and consult to the extent reasonably necessary with respect to any litigation,

the company providing information, consultant or witness services under the master separation agreement will be entitled to reimbursement from the other for reasonable expenses,

the parties will each retain all proprietary information in its possession relating to each other's businesses for a period of time, and, if the information is to be destroyed, the destroying company will give the applicable other company the opportunity to receive the information, and

from and after the closing date of the separation and recapitalization transactions, the parties will agree to hold in strict confidence all information concerning or belonging to any other party obtained prior to the closing date of the separation and recapitalization transactions or furnished pursuant to the master separation agreement or any ancillary agreement, subject to applicable law.

No Representations and Warranties

Pursuant to the master separation agreement, LAZ-MD Holdings and LFCM Holdings will acknowledge and agree that neither Lazard Ltd nor Lazard Group is representing or warranting to LAZ-MD Holdings or LFCM Holdings as to the separated businesses, the assets, liabilities and businesses included therein or the historical operations of those businesses, assets and liabilities. LAZ-MD Holdings and LFCM Holdings will take all such businesses and assets as is, where is and bear the economic and legal risk relating to conveyance of, and title to, those assets and businesses.

Termination

The master separation agreement may be terminated at any time prior to the closing of this offering by Lazard Group.

Expenses

In general, LAZ-MD Holdings and LFCM Holdings, on the one hand, and Lazard Ltd and Lazard Group, on the other hand, are responsible for their own costs incurred in connection with the transactions contemplated by the master separation agreement.

Lazard Group intends to reimburse Lazard Ltd for all of its ordinary course expenses incurred in connection with the separation and recapitalization transactions and thereafter, including expenses incurred in operating as a public company.

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Employee Benefits Agreement

We will enter into an employee benefits agreement with LAZ-MD Holdings and LFCM Holdings that will govern our compensation and employee benefit obligations with respect to our active and former employees. Under the employee benefits agreement, LFCM Holdings will generally assume, as of the completion of the separation and recapitalization transactions, all outstanding and future liabilities in respect of the current and former employees of the separated businesses. We will, however, retain all accrued liabilities under, and assets of, our pension plans in the U.S. and the U.K. and the 401(k) plan accounts of the inactive employees of LFCM Holdings and its subsidiaries. As reflected in the notes to our consolidated financial statements, as of December 31, 2004, our principal U.K. pension plan had a deficit of approximately \$95 million under current actuarial assumptions. This deficit would ordinarily be funded over time. We are in discussions with the trustees of that pension plan aimed at reaching agreement regarding a deficit reduction plan as well as asset allocation. In considering their duties to beneficiaries, the trustees also have the power to change the asset allocation. Any changes in the asset allocation could increase the unfunded liability that would be funded over time, depending on asset mix, any increase in liabilities and returns. It is also the case that the relevant pensions regulator in the U.K. may have the power to require contributions to be made to plans, and to impose support in respect of the funding of plans by related companies other than the direct obligors. We anticipate that LFCM Holdings will make payments of approximately 30 million British pounds in the aggregate to Lazard Group or one of its subsidiaries to reduce the pension plan deficit. The employee benefits agreement provides that to the extent inactive employees of the LFCM businesses are participating or eligible to participate in certain of our welfare benefit plans as of the completion of the separation and recapitalization transactions, they will continue to be eligible to participate in such plans, with LFCM reimbursing us for the costs of any such participation.

The employee benefits agreement generally provides that following the date of the separation and recapitalization transactions, the employees of LFCM Holdings and its subsidiaries will participate in employee benefit plans and programs of LFCM Holdings, although U.S. employees of LFCM Holdings and its subsidiaries will continue to be eligible to participate in certain of our welfare plans and in our 401(k) plan for brief transition periods following the completion of the separation and recapitalization transactions, with LFCM reimbursing us for the costs of any such participation. Following the transition period, we will transfer the accounts of the then-active employees of LFCM Holdings and its subsidiaries to a new 401(k) plan sponsored by LFCM Holdings. The employee benefits agreement provides that the employee benefit plans of LFCM Holdings will generally give employees full credit for service to us prior to the reorganization, to the extent such service was credited under our corresponding plans.

Insurance Matters Agreement

The separated businesses are currently insured under insurance policies held within Lazard Group, which policies provide coverage to Lazard Group and its subsidiaries and affiliates for property and casualty, errors and omissions, directors and officers and certain other risks commonly insured by financial services companies. Following the separation, we intend to surrender a portion of these policies and replace them with new policies that separately cover our business and the separated businesses, respectively, or to vary or retain all or a portion of these policies which will be governed to the extent necessary by the insurance matters agreement.

Prior to the separation, LFCM Holdings and we intend to enter into an insurance matters agreement. Under the agreement, our former insurance policies and those insurance policies currently in effect generally will continue to provide coverage to Lazard Ltd and Lazard Group and their respective subsidiaries and will generally provide coverage to LFCM Holdings and its subsidiaries only for pre-separation occurrences. After the separation, Lazard Ltd and Lazard Group and their respective subsidiaries and LFCM Holdings and its subsidiaries will separately make their own insurance arrangements.

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The insurance matters agreement includes provisions establishing the manner in which LFCM Holdings and we will cooperate with each other in seeking insurance for our respective liabilities under policies that provide coverage to both companies. The insurance matters agreement also includes provisions concerning the allocation between LFCM Holdings and us of insurance recoveries in excess of available limits of liability. In addition, with respect to the type of coverage required as a matter of law, LFCM will obtain separate replacement policies that provide for coverage after the separation date. With respect to any additional insurance policies that other similar businesses obtain in the aggregate in the ordinary course of business, LFCM Holdings will use commercially reasonable efforts to obtain separate policies that provide for such coverage after the separation.

Lazard License Agreement

The logo, trademarks, trade names and service marks of Lazard are currently property of various wholly-owned subsidiaries of Lazard Group. Pursuant to the master separation agreement, Lazard Group and those subsidiaries will enter into a license agreement with LFCM Holdings that will govern the use of the Lazard and LF names by LFCM Holdings in connection with the separated businesses.

In general, LFCM Holdings will be permitted to use the Lazard name to the extent that the Lazard name is being used at the time of this offering by the separated businesses and will be permitted to use the LF name solely for the use of the name LFCM Holdings LLC in its capacity as a holding company for the separated businesses. LFCM Holdings' license will not extend to any research on an issuer not already covered by the capital markets business or to any new funds (including any successor funds to funds existing at the time of this offering) established or otherwise obtained by the merchant banking business after this offering, unless LFCM Holdings receives Lazard Group's prior consent. Under the agreement, LFCM Holdings will pay \$100,000 per year for the right to license the Lazard name. The license will survive with respect to capital markets activities until the expiration or termination of the business alliance provided for in the business alliance agreement that LFCM Holdings will enter with Lazard Group. With respect to merchant banking activities, LFCM Holdings' license will survive until the earlier of the expiration, termination or closing of the options to purchase the North American and European merchant banking businesses, to be granted in the business alliance agreement, as described in Business Alliance Agreement or until the business alliance agreement is terminated. The license for the LF name in LFCM Holdings LLC may be terminated by either party for any reason after the license with respect to the capital markets business and the license for the merchant banking activities have both expired or been terminated. Upon termination of either the license with respect to the capital markets business or the license for the merchant banking activities, the license fee for the calendar year following the termination and each year thereafter will be \$75,000 per year. If both of those licenses are terminated, the license fee for the calendar year following the termination and each year thereafter will be \$25,000 per year.

Administrative Services Agreement

We intend to enter into an administrative services agreement with LAZ-MD Holdings and LFCM Holdings regarding administrative and support services to be provided after the completion of the separation and recapitalization transactions.

Pursuant to the administrative services agreement, Lazard Group will provide selected administrative and support services to LAZ-MD Holdings and LFCM Holdings, such as:

cash management and debt service administration,

accounting and financing activities,

tax,

payroll,

human resources administration,

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financial transaction support,

information technology,

public communications,

data processing,

procurement,

real estate management, and

other general administrative functions.

Lazard Group intends to charge for the above services based on Lazard Group's cost allocation methodology. Notwithstanding Lazard Group's providing data processing services, Lazard Group will not provide any security administration services, as such services are being transferred to LFCM Holdings.

Pursuant to the administrative services agreement, Lazard Group also will be providing tax services to LAZ-MD Holdings and LFCM Holdings will provide securities administrative services to Lazard Group.

The services provided by Lazard Group to LFCM Holdings, and by LFCM Holdings to Lazard Group, under the administrative services agreement generally will be provided until December 31, 2008. LFCM Holdings and Lazard Group have a right to terminate the services earlier if there is a change of control of either party or the business alliance provided in the business alliance agreement expires or is terminated. The services provided by Lazard Group to LAZ-MD Holdings will generally be provided until December 31, 2014, unless terminated earlier because of a change of control of either party.

In the absence of gross negligence or willful misconduct, the party receiving services under the administrative services agreement will waive any rights and claims they may have against the service provider in respect of any services provided under the administrative services agreement.

Business Alliance Agreement

Lazard Group and LFCM Holdings intend to enter into a business alliance agreement that will provide for the continuation of Lazard Group's and LFCM Holdings' business relationships in the areas and on the terms summarized below.

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The business alliance agreement will provide that Lazard Group will refer to LFCM Holdings selected opportunities for underwriting and distribution of securities. In addition, Lazard Group will provide assistance in the execution of any such referred business. In exchange for this referral obligation and assistance, Lazard Group will be entitled to a referral fee from LFCM Holdings equal to approximately half of the revenue obtained by LFCM Holdings in respect of any underwriting or distribution opportunity. In addition, LFCM Holdings will refer opportunities in the Financial Advisory and Asset Management businesses to Lazard Group. In exchange for this referral, LFCM Holdings will be entitled to a customary finders fee from Lazard Group. In addition, the business alliance agreement further provides that, during the term of the business alliance, Lazard Frères & Co. LLC and LAM Securities will introduce execution and settlement transactions to newly-formed broker-dealer entities affiliated with LFCM Holdings. The term of the business alliance will expire on the fifth anniversary of this offering, subject to periodic automatic renewal, unless either party elects to terminate in connection with any such renewal or elects to terminate on account of a change of control of either party.

In addition, the business alliance agreement to be entered into between Lazard Group and LFCM Holdings will grant Lazard Group options to acquire the North American and European merchant banking activities of Lazard Alternative Investments Holdings LLC, or LAI, the subsidiary of LFCM

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Holdings that will own and operate all of LFCM Holdings' merchant banking activities, exercisable at any time prior to the ninth anniversary of the consummation of this offering for a total price of \$10 million. The option may be exercised by Lazard Group in two parts, consisting of an \$8 million option to purchase the North American merchant banking activities and a \$2 million option to purchase the European merchant banking activities. LAI's merchant banking activities initially will consist of the merchant banking management and general partner entities that were transferred to LFCM Holdings pursuant to or in anticipation of the separation. The business alliance agreement will provide that, prior to the expiration, termination or exercise of the options, Lazard Group will have certain governance rights with respect to LAI, and LFCM Holdings will be required to support the business of LAI. In addition, Lazard Group will abide by existing obligations with respect to funds existing as of the date of this offering, and, other than with respect to the merchant banking operations retained by Lazard Group in the separation, Lazard Group will agree not to compete with the merchant banking business of LAI until the expiration, termination or exercise of the options. Lazard Group also may agree to new capital commitments and other obligations with respect to newly formed funds in its sole discretion. Lazard Group may be entitled to receive from LFCM Holdings payments from the incentive fees attributable to newly established LAI funds, such as Corporate Partners II Limited, less the share of the carry distributed to managers of such funds.

Pursuant to the business alliance agreement, LFCM Holdings will agree not to compete with any existing Lazard Group businesses until the latest to occur of the termination of the license agreement, the expiration, termination or exercise of the options to purchase the North American merchant banking activities and the European merchant banking activities or the expiration or termination of the business alliance.

Tax Receivable Agreement

As described in *The Separation and Recapitalization Transactions and the Lazard Organizational Structure*, *The Separation and Recapitalization Transactions*, *The Recapitalization of LAZ-MD Holdings and Lazard Group*, *The Redemption of the Historical Partners' Interests*, prior to and in connection with this offering, historical partner interests and preferred interests generally will be redeemed for cash. In addition, as described in *Certain Relationships and Related Transactions*, *Relationship with LAZ-MD Holdings and LFCM Holdings*, *Master Separation Agreement*, *LAZ-MD Holdings Exchangeable Interests*, LAZ-MD Holdings exchangeable interests may, in effect, be exchanged in the future for shares of our common stock. The redemption will, and the exchanges may, result in increases in the tax basis of the tangible and intangible assets of Lazard Group attributable to our subsidiaries' interest in Lazard Group that otherwise would not have been available, although the IRS may challenge all or part of that tax basis increase, and a court could sustain such a challenge by the IRS. These increases in tax basis, if sustained, may reduce the amount of tax that our subsidiaries would otherwise be required to pay in the future.

Our subsidiaries intend to enter into a tax receivable agreement with LFCM Holdings that will provide for the payment by our subsidiaries to LFCM Holdings of 85% of the amount of cash savings, if any, in U.S. federal, state and local income tax or franchise tax that we actually realize as a result of these increases in tax basis and of certain other tax benefits related to our entering into the tax receivable agreement, including tax benefits attributable to payments under the tax receivable agreement. Our subsidiaries expect to benefit from the remaining 15% of cash savings, if any, in income tax that our subsidiaries realize. Any amount paid by our subsidiaries to LFCM Holdings will generally be distributed to the working members in proportion to their goodwill interests underlying the working member interests held by or allocated to such persons immediately prior to the formation of the new holding company pursuant to the separation.

In order to mitigate the risk to us of an IRS challenge to the tax basis increase, 20% of each payment that would otherwise be made by our subsidiaries will be deposited into an escrow account until the expiration of the statute of limitations for the tax year to which the payment relates. In addition,

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if the IRS successfully challenges the tax basis increase, any subsequent payments our subsidiaries are required to make under the tax receivable agreement will be reduced accordingly. However, under no circumstances will our subsidiaries receive any reimbursements from LFCM Holdings or any of the holders of LFCM Holdings of amounts previously paid by our subsidiaries under the tax receivable agreement. As a result, under certain circumstances, our subsidiaries could make payments to LFCM Holdings under the tax receivable agreement in excess of our subsidiaries' cash tax savings.

For purposes of the tax receivable agreement, cash savings in income and franchise tax will be computed by comparing our subsidiaries' actual income and franchise tax liability to the amount of such taxes that our subsidiaries would have been required to pay had there been no increase in the tax basis of the tangible and intangible assets of Lazard Group attributable to our subsidiaries' interest in Lazard Group as a result of the redemption and exchanges and had our subsidiaries not entered into the tax receivable agreement. The term of the tax receivable agreement will commence upon consummation of this offering and will continue until all such tax benefits have been utilized or expired, unless our subsidiaries exercise their right to terminate the tax receivable agreement for an amount based on an agreed value of payments remaining to be made under the agreement.

While the actual amount and timing of any payments under this agreement will vary depending upon a number of factors, including the timing of exchanges, the extent to which such exchanges are taxable and the amount and timing of our subsidiaries' income, we expect that, as a result of the size of the increases of the tangible and intangible assets of Lazard Group attributable to our subsidiaries' interest in Lazard Group, during the expected 24-year term of the tax receivable agreement, the payments that our subsidiaries may make to LFCM Holdings could be substantial. If the LAZ-MD Holdings exchangeable interests had been effectively exchanged in a taxable transaction for common stock at the time of the closing of this offering, the increase in the tax basis attributable to our subsidiaries' interest in Lazard Group would have been approximately \$1.7 billion, assuming an initial offering price of \$26.00 per share of common stock (the midpoint of the range of initial public offering prices set forth on the cover of this prospectus), including the increase in tax basis associated with the redemption and recapitalization. The cash savings that our subsidiaries would actually realize as a result of this increase in tax basis likely would be significantly less than this amount multiplied by our effective tax rate due to a number of factors, including the allocation of the increase in tax basis to foreign assets, the impact of the increase in the tax basis on our ability to use foreign tax credits and the rules relating to the amortization of intangible assets. The tax receivable agreement will require approximately 85% of such cash savings, if any, to be paid to LFCM Holdings. The actual increase in tax basis will depend, among other factors, upon the price of shares of our common stock at the time of the exchange and the extent to which such exchanges are taxable and, as a result, could differ materially from this amount. Our ability to achieve benefits from any such increase, and the payments to be made under this agreement, will depend upon a number of factors, as discussed above, including the timing and amount of our future income.

LAZ-MD Holdings Stockholders' Agreement

We expect that the members of LAZ-MD Holdings, consisting of the working members, including our managing directors, will enter into a stockholders' agreement with LAZ-MD Holdings and Lazard Ltd in connection with the separation that addresses, among other things, LAZ-MD Holdings' voting of its share of Class B common stock and registration rights in favor of the stockholders who are party to the agreement.

The LAZ-MD Holdings stockholders' agreement will continue in effect until all LAZ-MD Holdings exchangeable interests have been exchanged for shares of our common stock, and individual members of LAZ-MD Holdings will cease being party to the LAZ-MD Holdings stockholders' agreement.

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upon full exchange of his or her LAZ-MD Holdings exchangeable interests and underlying Lazard Ltd interests for our common stock. The LAZ-MD Holdings stockholders' agreement may be terminated on an earlier date by LAZ-MD Holdings members entitled to vote at least 66 2/3% of the aggregate voting power represented by the LAZ-MD Holdings members who are party to the LAZ-MD Holdings stockholders' agreement. The LAZ-MD Holdings stockholders' agreement generally may be amended at any time by a majority of the aggregate voting power represented by LAZ-MD Holdings members who are party to the LAZ-MD Holdings stockholders' agreement.

Voting Rights

Prior to any vote of the stockholders of Lazard Ltd, the LAZ-MD Holdings stockholders' agreement requires a separate, preliminary vote of the members of LAZ-MD Holdings who are party to the LAZ-MD Holdings stockholders' agreement (either by a meeting or by proxy or written instruction of the members of LAZ-MD Holdings) on each matter upon which a vote of the stockholders is proposed to be taken. Every working member will be offered the opportunity to become a party to the LAZ-MD Holdings stockholders' agreement. Pursuant to the LAZ-MD Holdings stockholders' agreement, the members of LAZ-MD Holdings will individually be entitled to direct LAZ-MD Holdings how to vote their proportionate interest in our Class B common stock on an as-if-exchanged basis. For example, if a working member's LAZ-MD Holdings exchangeable interests were exchangeable for 1,000 shares of our common stock, that working member would be able to instruct LAZ-MD Holdings how to vote 1,000 of the votes represented by the Class B common stock. However, the LAZ-MD Holdings board of directors will have the ability to vote the voting interest represented by the Class B common stock in its discretion if the LAZ-MD Holdings board of directors determines that it is in the best interests of LAZ-MD Holdings.

The votes under the Class B common stock that are associated with any working member who does not sign the LAZ-MD Holdings stockholders' agreement, or with any working member who signs but does not direct LAZ-MD Holdings how to vote on a particular matter, will be abstained from voting. The terms of the LAZ-MD Holdings stockholders' agreement will continue to apply to any working member party to the LAZ-MD Holdings stockholders' agreement who receives Lazard Group common membership interests upon exchange of his or her LAZ-MD Holdings exchangeable interest, until such time as that working member exchanges his or her Lazard Group common membership interests for shares of our common stock.

Registration Rights

The LAZ-MD Holdings stockholders' agreement will provide that the holders of shares of our common stock issued or to be issued upon exchange of the LAZ-MD Holdings exchangeable interests or the Lazard Group common membership interests initially held by LAZ-MD Holdings will be granted registration rights. These shares we refer to as registrable securities, and the holders of these registrable securities we refer to as holders. The holders will be third-party beneficiaries for that purpose under the LAZ-MD Holdings stockholders' agreement, meaning that they will have the right to compel us to honor those obligations under the LAZ-MD Holdings stockholders' agreement.

The LAZ-MD Holdings stockholders' agreement will provide that, after exchange for shares of our common stock, each holder is entitled to unlimited piggyback registration rights, meaning that each holder can include his or her registrable securities in registration statements filed by us, subject to certain limitations. Holders also have demand registration rights, meaning that, subject to certain limitations, after exchange for shares of our common stock, they may require us to register the registrable securities held by them, provided that the amount of registrable securities subject to such demand has a market value in excess of \$50 million or, on and after six months after the nine-year anniversary of this offering, \$20 million. We will pay the costs associated with all such registrations. Moreover, we also will use our reasonable best efforts to file and make effective a registration

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statement on the third through the ninth anniversaries of this offering, in order to register registrable securities that were issued on those anniversaries or otherwise subject to continuing volume or transfer restrictions under Rule 144 upon the exchange of the LAZ-MD Holdings exchangeable interests and the Lazard Group common membership interests, provided that the amount of registrable securities subject to such registration constitutes at least \$50 million of shares of our outstanding common stock on the date of such demand.

Shares of our common stock will cease to be registrable securities upon the consummation of any sale of such shares pursuant to an effective registration statement or under Rule 144 under the Securities Act or when they become eligible for sale under Rule 144(k) under the Securities Act. However, any holder who has shares that would have been registrable securities but for their eligibility for sale under Rule 144(k) and who holds, in the aggregate, an amount of registrable securities with a market value in excess of \$25 million of our outstanding common stock will be entitled to continued demand and piggyback registration rights as described above.

Immediately following this offering, substantially all of our common stock to be issued upon exchange of the LAZ-MD Holdings exchangeable interests will have the foregoing registration rights.

The Historical Partners Transaction Agreement

The redemption of the historical partners' interests is governed by the Class B-1 and Class C Members Transaction Agreement, entered into on December 16, 2004, by LAZ-MD Holdings, Lazard Group, Lazard Ltd and our historical partners who are parties thereto. We refer to this document as the historical partners transaction agreement. Pursuant to the historical partners transaction agreement, the historical interests will be redeemed for an aggregate price of approximately \$1.6 billion, in cash, except that a portion of the consideration payable to Eurazeo S.A. may be delivered in the form of Eurazeo S.A. common shares currently held by us.

Completion of the redemption is subject to customary conditions, including receipt of regulatory approvals, legal and other opinions and financing, as well as Lazard Group board approval. The redemption may be completed at any time of our choosing on or before December 31, 2005, but must be completed on the same day that this offering and the additional financing transactions are to close. The historical partners transaction agreement contemplates a specific plan of financing that includes this offering and the additional financing transactions, but allows us to change the financing structure so long as the new structure does not have an adverse effect on the historical partners whose interests are being redeemed.

In the event that the redemption has not been completed on or before June 30, 2005, accrued interest on the capital accounts in respect of historical partner interests for calendar year 2004 will be paid in cash on June 30, 2005, and Lazard Group shall receive a credit against the applicable redemption price for the cash so paid. In addition, in the event that the redemption has not been completed on or before June 30, 2005, the redemption price to be paid in respect of historical partner interests will be increased by an amount equal to the interest rate, if any, ordinarily applicable to the capital in respect of historical partner interests being redeemed for the period from July 1, 2005 to the completion date for the redemption.

The historical partners transaction agreement contains a number of additional important agreements, including:

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The signing historical partners have agreed, for a period of 12 months after the closing of the redemption, not to hire or solicit any employees or officers of Lazard Group to leave such employment, and we have agreed to similar reciprocal provisions regarding the historical partners.

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For a period of 2 years after the closing of the redemption, the signing historical partners other than Eurazeo S.A. have agreed not to engage on such historical partner's own behalf in a competitive enterprise and not to own any interest in or engage in or perform any service for any competitive enterprise, either as a partner, owner, employee, consultant, agent, officer, director, stockholder or otherwise, subject to certain exceptions. This restriction will apply to Mr. David-Weill for so long as he continues to maintain office space at Lazard Group, which he will do at least until March 31, 2007.

The signing historical partners have agreed, for so long as the historical partners transaction agreement is in effect, not to solicit or encourage any competing transaction, as defined in the historical partners transaction agreement, which includes any transaction that could reasonably be expected to prevent, materially delay, reduce the likelihood of or otherwise materially adversely affect completion of any of the material steps of the recapitalization.

The signing historical partners have agreed to resign, effective as of the closing of the redemption, and end their respective affiliations with Lazard Group and its affiliates, including by resigning from all positions and titles they hold in Lazard Group or any of its affiliates, and to terminate any agreements they may have with Lazard Group or any of its affiliates, in all cases subject to limited exceptions.

The signing historical partners have agreed to release at closing Lazard Group and its affiliates and representatives from any claims arising out of (1) any member of Lazard Group (including its affairs and operations), (2) Lazard Group interests being redeemed, and any associated rights, (3) any and all aspects of the redemption and (4) if applicable, any employment, severance or bonus agreement between such historical partner and any member of Lazard Group, but excluding any such claims or causes of action arising out of any ordinary course business dealings such as provision of money management services by a member of Lazard Group to that historical partner or its affiliates and certain other specified matters. We have granted a similar release to the signing historical partners.

We have agreed to indemnify the signing historical partners and their affiliates and representatives for any out-of-pocket liabilities incurred in their capacities as directors, employees, executives, partners, stockholders, officers or affiliates of Lazard Group, LAZ-MD Holdings, Lazard Ltd or any of their subsidiaries to the extent such losses arise out of the redemption of this offering, the additional financing transactions or any other financing, and in their capacity as general partner of any predecessor of Lazard Group or any of its affiliates. This indemnification is subject to a number of specified exceptions.

In the event that the transaction has not been completed by December 31, 2005, or has been earlier abandoned by Mr. Wasserstein, Mr. David-Weill and Mr. Wasserstein (and such others as they determine) shall review alternatives for Lazard Group during the ensuing three-month period.

The historical partners transaction agreement may be terminated before closing under the following circumstances:

automatically if the redemption has not been completed on or prior to December 31, 2005,

by agreement of us, Lazard Group, Mr. David-Weill and Eurazeo S.A.,

if the transaction has been permanently enjoined by unappealable order of a court or other legal authority,

by either us and Lazard Group, on the one hand, or Mr. David-Weill and Eurazeo S.A., on the other, if Lazard Group delivers written notice of its intention to abandon the transaction, and

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by Mr. David-Weill if we had failed to include the disclosure specified in Section 5(n) of the historical partners transaction agreement in this prospectus or if we fail to include it in certain later offering documents, if any, and fail to cure such failing within two business days.

Certain Relationships with Our Directors, Executive Officers and Employees

Loans and Banking Relationships with Our Directors and Executive Officers

During 2004, our broker-dealer subsidiary engaged in transactions with our executive officers and directors in respect of brokerage services, including a brokerage account margin loan to one of our executive officers. All brokerage services in connection with these transactions were made in the ordinary course of business and on substantially the same terms as those prevailing at the time for comparable transactions with independent third parties, and the loan did not involve more than the normal risk of collectability or present other features unfavorable to us.

Other than as permitted under the Sarbanes-Oxley Act of 2002 and any other applicable law, we will not enter into new loans with our executive officers or directors or modify or renew any loan with our executive officers or directors.

Relationships Involving Employee Directors and Executive Officers

Mr. Wasserstein, our Chairman and Chief Executive Officer, serves as the Chairman and is the majority owner of Wasserstein Holdings, LLC, the ultimate general partner of Wasserstein & Co., LP, a separate merchant banking firm in which Lazard does not hold any economic interest and at which Ellis Jones, who will serve on our board of directors, serves as Chief Executive Officer. Wasserstein & Co., LP focuses primarily on leveraged buyout investments, venture capital investments and related investment activities, and manages capital on behalf of its institutional and individual investors, including public and corporate pension funds, foreign governmental entities, endowments and foundations and high-net worth individuals. Wasserstein & Co., LP also manages capital from its partners and officers. In addition, Wasserstein Holdings, LLC has various other business interests. Since the beginning of 2005, Wasserstein & Co., LP has paid us an amount less than \$1 million for advisory services rendered by us.

The Wasserstein funds may engage in activities that are similar to those in which we and our affiliates are engaged. If Mr. Wasserstein desires to make available any corporate opportunity of ours or our affiliates that arises from a relationship of ours or any of our affiliates (other than any relationship of Mr. Wasserstein existing on November 15, 2001), those opportunities can only be referred to the Wasserstein funds if Mr. Wasserstein first obtains the written consent of our nominating and corporate governance committee.

Lazard Group entered into a letter agreement with Vernon E. Jordan, Jr., who will be a director of our company, when he joined Lazard in 1999 that was amended and restated effective as of January 1, 2004. This agreement governs Mr. Jordan's service as a senior managing director of Lazard. Pursuant to the agreement, Mr. Jordan received total compensation in 2004 of \$4 million and will be entitled to receive total compensation of no less than \$3 million for each of 2005 and 2006. In each year, \$500,000 of the total compensation is payable as base salary. In the event that we terminate Mr. Jordan's services without cause or he terminates due to a breach of a material provision by us prior to the end of 2006, he will be entitled to receive the guaranteed amounts through 2006 at the times that he would have received them had he remained with us. The agreement also entitles Mr. Jordan to benefits

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and fringes on the same basis as other managing directors and for use on a priority basis of a corporate apartment in New York. In connection with this offering, Mr. Jordan entered into a retention agreement in the form applicable to our managing directors generally. See Arrangements with Our Managing Directors The Retention Agreements in General.

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Director and Officer Indemnification

Our bye-laws provide for indemnification of our officers and directors against all liabilities, loss, damage or expense incurred or suffered by such party as an officer or director of us, provided that such indemnification shall not extend to any matter which would render it void pursuant to the Companies Act.

The Companies Act provides that a Bermuda company may indemnify its directors and officers in respect of any loss arising or liability attaching to them as a result of any negligence, default or breach of trust of which they may be guilty in relation to the company in question. However, the Companies Act also provides that any provision, whether contained in the company's bye-laws or in a contract or arrangement between the company and the director or officer, indemnifying a director or officer against any liability which would attach to him or her in respect of his or her fraud or dishonesty will be void.

Our directors and officers are covered by directors' and officers' insurance policies maintained by us.

Subject to limitations imposed by Bermuda law, we may enter into agreements that provide indemnification to our directors, officers and all other persons requested or authorized by our board of directors to take actions on behalf of us for all losses, damages, costs and expenses incurred by the indemnified person arising out of such person's service in such capacity. These agreements would be in addition to our indemnification obligations under our bye-laws as described under Description of Capital Stock.

For more information on our indemnification arrangements, see Relationship with LAZ-MD Holdings and LFCM Holdings Master Separation Agreement Relationship Among Lazard, Lazard Group, LAZ-MD Holdings and LFCM Holdings.

Distributions by Lazard Group

After this offering Lazard Group intends to make distributions to LAZ-MD Holdings, and LAZ-MD Holdings intends to make distributions to its members, including certain of our managing directors, officers and two of our directors. See The Separation and Recapitalization Transactions and the Lazard Organizational Structure Lazard Ownership Structure After the Separation and Recapitalization Transactions Distributions by Lazard Group with Respect to Lazard Group Common Membership Interests.

Transactions with Our Working Members

From time to time, Lazard Group has reallocated capital interests of its managing directors. Prior to the closing of this offering, Lazard Group will have repurchased working member interests from various current and former managing directors at prices lower than those to be paid to the historical partners for their historical partner interests pursuant to the historical partners transaction agreement. Since January 1, 2002, including in connection with this offering, Lazard Group has and will have granted additional unallocated working member interests and reallocated working member interests to current managing directors, including its named executive officers and employee directors, resulting in ownership interest as described under Principal Stockholders. These

repurchases, reallocations and grants are accounted for as reallocations of capital on our financial statements.

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DESCRIPTION OF CAPITAL STOCK

The following summary is a description of the material terms of our share capital. We have filed our certificate of incorporation and memorandum of association and bye-laws as exhibits to the registration statement of which this prospectus is a part. See [Where You Can Find More Information](#). The following summary also highlights material differences between Bermuda and Delaware corporate laws. The following summary also contains a description of the material terms of the capital stock of Lazard Group.

General

Our authorized capital stock consists of 500,000,000 shares of common stock, par value \$0.01 per share, and 1 share of Class B common stock, par value \$0.01 per share and 15,000,000 preference shares, par value \$0.01 per share.

Common Stock

Immediately following the completion of this offering, there will be 33,653,846 shares of common stock issued and outstanding, and one share of Class B common stock issued and outstanding. No preference shares will be issued or outstanding at that time.

Voting

Each share of common stock will entitle its holder to one vote per share. On all matters submitted to a vote of our stockholders, the Class B common stock held by LAZ-MD Holdings will entitle LAZ-MD Holdings to the number of votes equal to the number of shares of our common stock that would be issuable if all of the then outstanding Lazard Group common membership interests issued to LAZ-MD Holdings were exchanged for shares of our common stock on the applicable record date. The voting power of our outstanding Class B common stock will, however, represent not less than 50.1% of the voting power of our company until December 31, 2007. The members of our board of directors will be elected by the common stockholders and the Class B common stockholder voting together as a single class. Generally, all matters to be voted on by stockholders must be approved by a majority of the votes entitled to be cast by all shares of common stock and Class B common stock present in person or represented by proxy, voting together as a single class, subject to any voting rights granted to holders of any preference shares. However, except as otherwise provided by law, and subject to any voting rights granted to holders of any preference shares, mergers and amalgamations, amendments to the memorandum of association or bye-laws and any removal of a director for cause must be approved by a majority of the combined voting power of all of the outstanding common stock and Class B common stock, voting together as a single class. However, amendments to the bye-laws that would alter or otherwise modify provisions of the bye-laws relating to the size or classified nature of the board of directors, the ability to remove directors only for cause, the ability of the board of directors to adopt a rights plan and certain other matters must be approved by at least 66²/₃% of the combined voting power of all common stock and Class B common stock voting as a single class. In addition, amendments to the memorandum of association or bye-laws that would alter or change the powers, preferences or special rights of the common stock or the Class B common stock so as to affect them adversely also must be approved by a majority of the votes entitled to be cast by the holders of the class of shares affected by the amendment, present in person or represented by proxy, voting as a separate class.

Economic Rights

Pursuant to our bye-laws, each share of our common stock is entitled to equal economic rights. However, the Class B common stock will have no rights to dividends or any liquidation preference.

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Accordingly, although immediately after this offering the Class B common stock will represent approximately 66.3% of the voting power of Lazard Ltd the Class B common stock will have no economic rights.

Dividends

Lazard Ltd has not declared or paid any cash dividends on our common equity since our inception. Subject to compliance with applicable law, we currently intend to declare quarterly dividends on all outstanding shares of our common stock and expect our initial quarterly dividend to be approximately \$0.09 per share, payable in respect of the second quarter of 2005 (to be prorated for the portion of that quarter following the closing of this offering). The Class B common stock will not be entitled to dividend rights.

The declaration of this and any other dividends and, if declared, the amount of any such dividend, will be subject to the actual future earnings, cash flow and capital requirements of our company, the amount of distributions to us from Lazard Group and the discretion of our board of directors. Our board of directors will take into account:

general economic and business conditions,

the financial results of our company and Lazard Group,

capital requirements of our company and our subsidiaries (including Lazard Group),

contractual, legal, tax and regulatory restrictions and implications on the payment of dividends by us to our stockholders or by our subsidiaries (including Lazard Group) to us, and

such other factors as our board of directors may deem relevant.

We are a holding company and have no direct operations. As a result, we will depend upon distributions from Lazard Group to pay any dividends. We expect to cause Lazard Group to pay distributions to us in order to fund any such dividends, subject to applicable law and the other considerations discussed above. In addition, as managing directors and other members of LAZ-MD Holdings convert their interests into shares of our common stock, they will also have a proportionate interest in the excess cash held by us to the extent that we retain excess cash balances or acquire additional assets with excess cash balances. For a discussion of Lazard Group's intended distribution policy, see The Separation and Recapitalization Transactions and the Lazard Organizational Structure.

Additionally, we are subject to Bermuda legal constraints that may affect our ability to pay dividends on our common stock and make other payments. Under the Companies Act, we may declare or pay a dividend out of distributable reserves only if we have reasonable grounds for believing that we are, or would after the payment be, able to pay our liabilities as they become due and if the realizable value of our assets would thereby not be less than the aggregate of our liabilities and issued share capital and share premium accounts.

Preference Shares

Pursuant to Bermuda law and our bye-laws, our board of directors by resolution may establish one or more series of preference shares having such number of shares, designations, dividend rates, relative voting rights, conversion or exchange rights, redemption rights, liquidation rights and other relative participation, optional or other special rights, qualifications, limitations or restrictions as may be fixed by the board of directors without any stockholder approval. Such rights, preferences, powers and limitations as may be established could also have the effect of discouraging an attempt to obtain control of Lazard Ltd. We currently have 15,000,000 authorized preference shares. We have no

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present plans to issue any preference shares. See Risk Factors Risks Related to the Offering We may issue preference shares and our bye-laws and Bermuda law may discourage takeovers, which could affect the rights of holders of our common stock.

Acquisition of Shares by Us

Our bye-laws provided that if our board of directors determines that we or any of our subsidiaries do not meet, or in the absence of repurchases of shares will fail to meet, the ownership requirements of a limitation on benefits article of a bilateral income tax treaty with the U.S., and that such tax treaty would provide material benefits to us or any of our subsidiaries, we generally have the right, but not the obligation, to repurchase at fair market value (as determined in the good faith discretion of our board of directors) shares from any stockholder who beneficially owns more than 0.25% of our outstanding shares and who fails to demonstrate to our satisfaction that such stockholder is either (a) a U.S. citizen or (b) a qualified resident of the U.S. or the other contracting state of the applicable tax treaty (as determined for purposes of the relevant provision of the limitation on benefits article of such treaty). IXIS is not subject to this repurchase right with respect to the aggregate number of shares it acquired pursuant to the IXIS investment agreement. The number of shares that may be repurchased from any such stockholder will equal the product of the total number of shares that we reasonably determine to purchase to ensure on-going satisfaction of the limitation on benefits article of the applicable tax treaty, multiplied by a fraction, the numerator of which is the number of shares beneficially owned by such stockholder and the denominator of which is the total number of shares (reduced by the aggregated number of shares IXIS acquired pursuant to the IXIS ESU placement) beneficially owned by subject stockholders. Instead of exercising the repurchase right described above, we will have the right, but not the obligation, to cause the transfer to, and procure the purchase by, any U.S. citizen or a qualified resident of the U.S. or the other contracting state of applicable tax treaty of the number of outstanding shares beneficially owned by any stockholder that are otherwise subject to repurchase under our bye-laws as described above, at fair market value (as determined in the good faith discretion of our board of directors).

Bermuda Law

Our board of directors believes that it is of primary importance that our stockholders are treated fairly and have proper access to and recourse against the company. Bermuda was chosen as our place of incorporation for several reasons, including its acceptability to our working members, who are domiciled around the world, and potential investors. Bermuda has an established corporate law which, coupled with the provisions of our bye-laws, we believe provides stockholders with an appropriate level of protection and rights.

We are an exempted company organized under the Companies Act. The rights of our stockholders, including those persons who will become stockholders in connection with this offering, are governed by Bermuda law and our memorandum of association and bye-laws. The Companies Act differs in some material respects from laws generally applicable to U.S. corporations and their stockholders. The following is a summary of material provisions of Bermuda law and our organizational documents not discussed above.

Dividends

Under Bermuda law, a company may pay dividends that are declared from time to time by its board of directors unless there are reasonable grounds for believing that the company is or would, after payment, be unable to pay its liabilities as they become due or that the realizable value of its assets would as a result be less than the aggregate of its liabilities and issued share capital and

share premium accounts.

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Voting Rights

Under Bermuda law, voting rights of stockholders are regulated by the company's bye-laws and, in certain circumstances, the Companies Act. Our bye-laws generally provide that all matters to be voted on by stockholders must be approved by a majority of the votes entitled to be cast by all shares of our common stock and Class B common stock present in person or represented by proxy, voting together as a single class, subject to any voting rights granted to holders of any preference shares. Our bye-laws also contain heightened voting requirements and class vote requirements, as described above in [Common Stock Voting](#).

Classified Board; Removal of Directors

The Companies Act does not contain statutory provisions specifically mandating classified board arrangements for a Bermuda company. However, a Bermuda company may validly provide for a classified board in its bye-laws. Our board of directors is divided into three classes of directors serving staggered three-year terms. As a result, approximately one-third of the board of directors will be elected each year. In addition, directors may only be removed for cause, by vote of shares representing a majority of the combined voting power of all of our common stock and Class B common stock, voting together as a single class. The existence of a classified board of directors may deter a stockholder from removing incumbent directors and simultaneously gaining control of the board of directors by filling vacancies with its own nominees.

Rights in Liquidation

Under Bermuda law, in the event of a liquidation or winding-up of a company, after satisfaction in full of all claims and creditors and subject to the preferential rights accorded to any series of preference shares and subject to any specific provisions of the company's bye-laws, the proceeds of the liquidation or winding-up are distributed pro rata among the holders of common shares.

Meetings of Stockholders

Under Bermuda law, a company is required to convene at least one stockholders' meeting each calendar year. Bermuda law provides that a special general meeting may be called by the board of directors and must be called upon the request of stockholders holding not less than 10% of the paid-up share capital of the company carrying the right to vote. Bermuda law also requires that stockholders be given at least five days' advance notice of a general meeting, but the accidental omission to give notice to any person does not invalidate the proceedings at a meeting. Our bye-laws provide that our board of directors may convene an annual general meeting or a special general meeting. Under our bye-laws, we must give each stockholder at least 30 days' notice of the annual general meeting and at least 10 days' notice of any special general meeting.

Under Bermuda law, the number of stockholders constituting a quorum at any general meeting of stockholders is determined by the bye-laws of a company. Our bye-laws provide that the presence in person or by proxy of two or more stockholders entitled to attend and vote and holding shares representing more than 50% of the combined voting power constitutes a quorum.

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The holders of not less than 5% of the total voting rights of all stockholders or one hundred stockholders, whichever is the lesser, may require the directors to include in the notice for the next annual general meeting of a company any resolution which may properly be moved and is intended to be moved. In addition, such persons may also require the directors to circulate to the other stockholders a statement on any matter which is proposed to be considered at any general meeting.

Access to Books and Records and Dissemination of Information

Members of the general public have the right to inspect the public documents of a company available at the office of the Registrar of Companies in Bermuda. These documents include a

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company's certificate of incorporation, its memorandum of association, including its objects and powers, and any alteration to its memorandum of association. The stockholders have the additional right to inspect the bye-laws of the company, minutes of general meetings and the company's audited financial statements. The register of members of a company is also open to inspection by stockholders without charge and by members of the general public on the payment of a fee. A company is required to maintain its share register in Bermuda but may, subject to the provisions of Bermuda law, establish a branch register outside Bermuda. We maintain a share register in Hamilton, Bermuda. A company is required to keep at its registered office a register of its directors and officers that is open for inspection for not less than two hours each day by members of the public without charge. Bermuda law does not, however, provide a general right for stockholders to inspect or obtain copies of any other corporate records.

Board Actions

Under Bermuda law, at common law, the directors of a Bermuda company owe their fiduciary duty to the company rather than the stockholders. In addition, the Companies Act imposes a specific duty on directors and officers of a Bermuda company to act honestly and in good faith with a view to the best interests of the company and requires them to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. The Companies Act also imposes various duties on officers of a company with respect to certain matters of management and administration of the company. Our bye-laws provide that some actions are required to be approved by our board of directors. A majority of the directors then in office constitutes a quorum. Actions must be approved by a majority of the directors present and entitled to cast votes at a properly convened meeting of our board of directors, provided, however, that our Chairman of the Board or Chief Executive Officer may be removed or requested to resign or retire from such office or may have the power or authority granted to him or her reduced or limited by our board of directors only upon the recommendation of a majority of the members of our nominating and corporate governance committee to the full board of directors and the approval of a majority of the full board of directors then in office. Notice of any meeting of our board of directors to discuss, resolve or act upon such matter following the recommendation of the nominating and corporate governance committee must be given at least seven business days before the date of such meeting.

Our bye-laws provide that our business is to be managed and conducted by our board of directors. Bermuda law requires that our directors be individuals, but there is no requirement in our bye-laws or Bermuda law that directors hold any of our shares. There is also no requirement in our bye-laws or Bermuda law that our directors must retire at a certain age.

Our bye-laws provide that our directors may (but are not required to) in taking any action (including an action that may involve or relate to a change of control or potential change of control of Lazard Ltd) consider, among other things, the effects that the action may have on other interests or persons (including our stockholders and employees and the communities in which we do business) as long as the director acts honestly and in good faith with a view to the best interests of Lazard Ltd.

Amendment of Memorandum of Association and Bye-laws

Bermuda law provides that the memorandum of association of a company may be amended by a resolution passed at a general meeting of stockholders of which due notice has been given. An amendment to the memorandum of association, other than an amendment that alters or reduces a company's share capital, also requires the approval of the Bermuda Minister of Finance, who may grant or withhold approval at his or her discretion. Our bye-laws may be amended if it is first approved by our board of directors and then is approved by our stockholders by a resolution passed by the requisite vote of our stockholders.

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Under Bermuda law, the holders of an aggregate of no less than 20% in par value of a company's issued share capital or any class of issued share capital have the right to apply to the Bermuda Supreme Court for an annulment of any amendment of the memorandum of association adopted by stockholders at any general meeting, other than an amendment that alters or reduces a company's share capital. Where such an application is made, the amendment becomes effective only to the extent that it is confirmed by the Bermuda Supreme Court. An application for the annulment of an amendment of the memorandum of association or continuance must be made within 21 days after the date on which the resolution altering the company's memorandum of association is passed and may be made on behalf of the persons entitled to make the application by one or more of their number as they may appoint in writing for the purpose. No such application may be made by persons voting in favor of the amendment.

Appraisal Rights and Stockholder Suits

Under Bermuda law, in the event of an amalgamation of a Bermuda company with another company, a stockholder of the Bermuda company who is not satisfied that fair value has been offered for his or her shares in the Bermuda company may apply to the Bermuda Supreme Court within one month of notice of the stockholders' meeting, to appraise the fair value of his or her shares. Under Bermuda law and our bye-laws, the amalgamation of Lazard Ltd with another company or corporation (other than certain affiliated companies) requires the amalgamation agreement to first be approved and then recommended by our board of directors and by resolution of our stockholders.

Class actions and derivative actions are generally not available to stockholders under Bermuda law. The Bermuda Court, however, would ordinarily be expected to permit a stockholder to commence an action in the name of a company to remedy a wrong done to the company where the act complained of is alleged to be beyond the corporate power of the company or is illegal or would result in violation of the company's memorandum of association or continuance or bye-laws. Furthermore, consideration would be given by the Bermuda Court to acts that are alleged to constitute a fraud against the minority stockholders or, for instance, where an act requires the approval of a greater percentage of the company's stockholders than that which actually approved it.

When the affairs of a company are being conducted in a manner oppressive or prejudicial to the interests of some part of the stockholders, one or more stockholders may apply to the Bermuda Court for an order regulating the company's conduct of affairs in the future or compelling the purchase of the shares of any stockholder, by other stockholders or by the company.

Discontinuance

Under Bermuda law, an exempted company may be discontinued and be continued in a jurisdiction outside Bermuda as if it had been incorporated under the laws of that other jurisdiction. Our bye-laws provide that our board of directors may exercise all our power to discontinue to another jurisdiction without the need of any stockholder approval.

Mergers and Similar Arrangements

A Bermuda exempted company may acquire the business of another Bermuda exempted company or a company incorporated outside Bermuda when the business of the target company is within the acquiring company's objects as set forth in its memorandum of association. Any merger or amalgamation first requires the approval of our board of directors and then the

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approval of our stockholders, by the affirmative vote of a majority of the combined voting power of all of the outstanding common stock and Class B common stock, voting together as a single class, subject to any voting rights granted to holders of any preference shares.

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Takeovers

Bermuda law provides that where an offer is made for shares of a company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer accept, the offeror may by notice require the non-tendering stockholders to transfer their shares on the terms of the offer.

Dissenting stockholders may apply to the court within one month of the notice objecting to the transfer. The test is one of fairness to the body of the stockholders and not to individuals, and the burden is on the dissentient stockholder to prove unfairness, not merely that the scheme is open to criticism.

In the event of a fundamental transaction, as set forth in the bye-laws, completed within the first year of the date of closing of this offering, holders of the LAZ-MD Holdings exchangeable interests will have the right to participate in that fundamental transaction on the same terms and for the same consideration as our common stock on an as-if-converted basis.

Registration Rights

For a description of registration rights available under the LAZ-MD Holdings stockholders agreement, see Certain Relationships and Related Transactions LAZ-MD Holdings Stockholders Agreement. Registration rights also will be granted to IXIS. See IXIS Investment in Our Common Stock Registration Rights and IXIS Investment in Exchangeable Debt Securities Registration Rights.

Transfer Agent and Registrar

A register of holders of our common stock will be maintained by Codan Services Limited in Bermuda, and a branch register will be maintained in the U.S. by the Bank of New York, who will serve as branch registrar and transfer agent.

Description of Lazard Group Membership Interests

Lazard Group Common Membership Interests

Immediately following this offering and the separation and recapitalization transactions, there will be 100,000,000 Lazard Group common membership interests issued and outstanding (or 104,569,686 assuming that the underwriters exercise their over-allotment option in full), 66,346,154 of which will be beneficially owned by LAZ-MD Holdings and 33,653,846 of which will be beneficially owned by us and certain of our wholly-owned subsidiaries (or 38,223,532 assuming that the underwriters exercise their over-allotment option in full). The profits and losses of Lazard Group will be allocated to holders of the Lazard Group common

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membership interests after deducting amounts allocated to the Lazard Group participatory interests described below.

The number of outstanding Lazard Group common membership interests owned by us and our wholly-owned subsidiaries will initially equal the number of shares of our common stock outstanding immediately after this offering.

We expect that the net cash proceeds received by Lazard Ltd from any issuance of shares of our common stock, including with regard to the exercise of options issued under the Equity Incentive Plan and an exchange of any of the exchangeable securities will be transferred to Lazard Group in exchange for Lazard Group common membership interests equal in number to such number of shares of common stock.

Pursuant to the terms of our memorandum of association, bye-laws and the master separation agreement, each Lazard Group common membership interest owned by LAZ-MD Holdings is exchangeable on a one-for-one basis with our common stock at any time by a holder of a LAZ-MD Holdings exchangeable interest subject to customary anti-dilution adjustments. See The Separation and Recapitalization Transactions and the Lazard Organizational Structure.

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Participatory Interests

We also intend to grant participatory interests in Lazard Group to certain of our current and future managing directors in connection with the separation and recapitalization transactions which are described under Management Arrangements with Our Managing Directors Participatory Interest in Lazard Group.

IXIS Investment in Our Common Stock

We have entered into an investment agreement with IXIS as part of the additional financing transactions. Under the investment agreement, IXIS has agreed to purchase an aggregate of \$200 million of securities concurrently with this offering, \$150 million of which will be debt securities of a financing subsidiary that are effectively exchangeable into shares of our common stock and \$50 million of which will be shares of our common stock. See Description of Indebtedness IXIS Investment in Exchangeable Debt Securities.

Board Composition

In connection with IXIS's investment in us as part of the additional financing transactions, we have agreed that we will nominate one person designated by IXIS to our board of directors until such time as (1) the shares of our common stock then owned by IXIS, plus (2) the shares of our common stock issuable under the terms of any exchangeable securities issued by us then owned by IXIS, constitute less than 50% of the sum of (a) the shares of our common stock initially purchased by IXIS, plus (b) the shares of our common stock issuable under the terms of any exchangeable securities issued by us initially purchased by IXIS.

Voting

In connection with IXIS's investment in us as part of the additional financing transactions, until such time as (a) IXIS is no longer entitled to designate a person of its choice to our board of directors, (b) IXIS owns securities representing less than 5% of our outstanding common stock on an as-exchanged or as-if-exchanged basis and (c) the arrangements contemplated by the cooperation arrangement are terminated, IXIS has agreed to vote all of our common stock beneficially owned by them in the manner recommended by our board of directors, except that IXIS may freely vote on matters relating to:

certain transactions that might involve a change in our control submitted to a vote of our common stockholders,

amendments to our organizational documents that may adversely affect the rights of holders of our securities, and

matters directly relating to the arrangements contemplated by the cooperation arrangement.

Registration Rights

Pursuant to a registration rights agreement, we have agreed to grant IXIS registration rights with respect to our securities held by them. The IXIS registration rights agreement will provide that holders of those securities generally will have unlimited piggyback registration rights. The registration rights agreement also will grant IXIS four demand registration rights requiring that we register the shares of our common stock held by IXIS, provided that the amount of securities subject to such demand constitutes at least 25% of the shares of our common stock held by IXIS and have an aggregate market value in excess of \$20 million.

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Lock-up Agreements

In connection with its investment as part of the additional financing transactions, IXIS has agreed not to make any disposition, sale, transfer, pledge or hedge (including by way of short selling) or to otherwise encumber any of our securities purchased by them for a period of 545 days from the date of purchase. In addition, following the expiration of the 545 day period, IXIS will not make any transfers of our securities representing more than 2.5% of our then outstanding common stock to any person, entity or group (within the meaning of Section 13(d)(3) of the Securities Exchange Act of 1934, as amended) that, after giving effect to such transfer, would beneficially own common stock or securities exchangeable for our common stock representing more than 5% of our outstanding common stock or make any transfers to any person, entity or group (within the meaning of Section 13(d)(3) of the Securities Exchange Act of 1934, as amended) that beneficially owns common stock or securities exchangeable into our common stock representing more than 5% of our outstanding common stock, unless, in either case the transferee agrees in writing to be bound by the transfer restrictions applicable to IXIS.

Limitations on Activities of IXIS

Until such time as (a) IXIS is no longer entitled to designate a person of their choice to our board of directors, (b) IXIS owns securities representing less than 5% of our outstanding common stock on an as-if-exchanged basis and (c) the arrangements contemplated by the cooperation arrangement are terminated, IXIS may not, among other things:

acquire, offer to acquire or agree to acquire beneficial ownership of any of our common stock,

acquire, offer to acquire or agree to acquire any of our businesses or material assets or any of our subsidiaries,

initiate or propose any offer by any third party to acquire, offer to acquire or agree to acquire beneficial ownership of our common stock or any securities convertible into or exercisable or exchangeable for any other of our voting securities,

initiate, propose or enter into any merger, tender offer, business combination, sale or other disposition outside of the ordinary course of business of any material portion of our assets or any of our subsidiaries or other extraordinary transaction involving us or any of our subsidiaries,

call, or seek to call, a meeting of our stockholders,

act, alone or in concert with others, to seek to affect or influence the control of our board of directors or our management, or our business, operations, affairs or policies,

initiate or propose any stockholder proposal or make, or in any way participate in, directly or indirectly, any solicitation of proxies to vote, or seek to influence any stockholder with respect to the voting of our securities,

form, join or in any way participate in a group for the purpose of acquiring, holding, voting or disposing of any of our securities, or

propose, or agree to, or enter into any discussions, negotiations or arrangements with, or provide any confidential information to, any third party with respect to any of the foregoing.

Preemptive Rights

In connection with IXIS's investment as part of the additional financing transactions, we have agreed that for so long as IXIS is entitled to designate a person of their choice to our board of directors, in the event of a sale by us of any of our common stock (or any securities convertible into or exercisable or exchangeable for our common stock) in a broadly distributed, underwritten public offering (or broadly distributed offering made in compliance with Regulation S under the Securities Act

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of 1933, as amended), in which the consideration to be received by us consists solely of cash, other than any offer or sale of securities (a) to working partners or employees of Lazard Group or LAZ-MD Holdings, (b) relating to a merger, amalgamation, consolidation or acquisition or (c) relating to a strategic transaction, IXIS shall be entitled to purchase an amount of such securities so as to maintain their proportionate share of ownership of our common stock.

Delaware Law

The terms of share capital of corporations incorporated in the U.S., including Delaware, differ from corporations incorporated in Bermuda. The following discussion highlights material differences of the rights of a stockholder of a Delaware corporation compared with the rights of our stockholders under Bermuda law.

Under Delaware law, a corporation may indemnify its director or officer (other than in action by or in the right of of the corporation) against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred in defense of an action, suit or proceeding by reason of such position if such director or officer (i) acted in good faith and in a manner he reasonably believed to be in, or not opposed to, the best interests of the corporation and (ii) with respect to any criminal action or proceeding, had no reasonable cause to believe his or her conduct was unlawful.

Delaware law provides that a majority of the shares entitled to vote, present in person or represented by proxy, constitutes a quorum at a meeting of stockholders. In matters other than the election of directors, with the exception of special voting requirements related to extraordinary transactions, the affirmative vote of a majority of shares present in person or represented by proxy at the meeting and entitled to vote is required for stockholder action, and the affirmative vote of a plurality of shares is required for the election of directors. With certain exceptions, a merger, consolidation or sale of all or substantially all the assets of a corporation must be approved by the board of directors and a majority of the outstanding shares entitled to vote thereon. Under Delaware law, a stockholder of a corporation participating in certain major corporate transactions may, under certain circumstances, be entitled to appraisal rights pursuant to which such stockholder may receive cash in the amount of the fair value of the shares held by such stockholder (as determined by a court) in lieu of the consideration such stockholder would otherwise receive in the transaction.

Under Delaware law, subject to any restrictions contained in the company's certificate of incorporation, a company may pay dividends out of surplus or, if there is no surplus, out of net profits for the fiscal year in which the dividend is declared and for the preceding fiscal year. Delaware law also provides that dividends may not be paid out of net profits if, after the payment of the dividend, capital is less than the capital represented by the outstanding stock of all classes having a preference upon the distribution of assets.

Delaware law permits corporations to have a classified board of directors. Delaware law permits the board of directors or any person who is authorized under a corporation's certificate of incorporation or by-laws to call a special meeting of stockholders. Under Delaware law, the business and affairs of a corporation are managed by or under the direction of its board of directors. In exercising their powers, directors are charged with a fiduciary duty of care to protect the interests of the corporation and a fiduciary duty of loyalty to act in the best interests of its stockholders.

Delaware law permits any stockholder to inspect or obtain copies of a corporation's stockholder list and its other books and records for any purpose reasonably related to such person's interest as a stockholder.

Class actions and derivative actions generally are available to stockholders under Delaware law for, among other things, breach of fiduciary duty, corporate waste and actions not taken in accordance with applicable law, and the court generally has discretion in such actions to permit the winning party to recover attorneys' fees.

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DESCRIPTION OF THE EQUITY SECURITY UNITS

The Units

Concurrently with the closing of this offering and as part of the additional financing transactions, we will be selling, by means of a separate prospectus, % equity security units for total gross offering proceeds of \$250 million, plus up to an additional \$37.5 million of gross proceeds if the underwriters exercise in full their option to purchase additional equity security units. Each unit will consist of and represent:

- (1) a purchase contract pursuant to which:

the holder will agree to purchase, and Lazard Ltd will agree to sell, for \$25, shares of our common stock on , 2008, which we refer to in this prospectus as the stock purchase date, the number of which will be determined based on the trading price of our common stock during a period preceding that date, calculated in the manner described below, and

Lazard Ltd will pay the holder contract adjustment payments on a quarterly basis at the annual rate of % of the stated amount of \$25, subject to its right to defer such payments, as specified below, and

- (2) a 1/40, or 2.5%, ownership interest in a senior note of Lazard Group Finance with a principal amount of \$1,000, on which Lazard Group Finance will pay interest at the initial annual rate of % until a successful remarketing of the senior notes and at the reset rate, which is described below, thereafter. Interest will be payable quarterly in arrears through and including the stock purchase date and, thereafter, semi-annually in arrears.

The ownership interest in the senior note initially will be pledged to secure the holder's obligations under the purchase contract. If a special event redemption, as described below, occurs prior to a successful remarketing, specified treasury securities will replace the ownership interest in a senior note as a component of each unit and will be pledged to the collateral agent for Lazard Ltd's benefit to secure the holder's obligations under the purchase contract.

If a holder desires to have the senior note released from the pledge, such holder may at any time on or before the second business day prior to the stock purchase date (subject to certain exceptions) substitute specified U.S. Treasury securities for the senior note (or, after a special event redemption, as described below, the specified pledged treasury securities) as collateral, thereby creating what we refer to as a stripped unit.

Lazard Ltd will be permitted to assign its rights and obligations under the purchase contracts, including settlement and the making of the contract adjustment payments, to any wholly-owned subsidiary of Lazard Ltd, but only if, and for so long as, the assignment does not adversely affect the holders of the purchase contracts or our common stockholders. Any incremental cost, including tax, that would be imposed on or payable by a holder as a result of an assignment will be considered to be an adverse effect, except to the extent Lazard Ltd or its assignee fully compensates the holders for the cost. Notwithstanding an assignment, Lazard Ltd will remain a primary obligor under the purchase contracts and will satisfy, or cause the assignee to satisfy, the obligations under the purchase contracts.

The Purchase Contracts

The purchase contract underlying a unit obligates the holder to purchase, and Lazard Ltd to sell, for \$25, on _____, 2008, a number of newly issued shares of our common stock. We will determine the number of shares the holder will receive by the settlement rate described below, based on the

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closing price of shares of our common stock during a specified period prior to the stock purchase date. Lazard Ltd will pay the holder quarterly contract adjustment payments on the purchase contracts at the annual rate of % of the stated amount of \$25 per purchase contract, subject to Lazard Ltd's right to defer these payments until the stock purchase date. Lazard Ltd will accrue additional contract adjustment payments on any deferred installments of contract adjustment payments at a rate of % per year until paid, compounded quarterly, up to but excluding the stock purchase date, unless the purchase contract has been earlier settled or terminated.

In the event that Lazard Ltd elects to defer the payment of contract adjustment payments on the purchase contracts until the stock purchase date, each holder of normal units and stripped units will receive on the stock purchase date in respect of the deferred contract adjustment payments, in lieu of a cash payment, a number of shares of our common stock equal to the sum of the share amounts calculated for each of the 20 trading days beginning on , 2008. For each of those 20 trading days, the share amount shall be equal to (a) the aggregate amount of deferred contract adjustment payments payable to the holder divided by (b) the product of 20 multiplied by the closing price of the common stock for the respective trading day.

In the event Lazard Ltd exercises its option to defer the payment of contract adjustment payments, then until the deferred contract adjustment payments have been paid, in general, it cannot declare or pay dividends on, make distributions with respect to, or redeem, purchase or acquire, or make a liquidation payment with respect to, any of Lazard Ltd's capital stock.

The Senior Notes

The senior notes will be senior, unsecured obligations of Lazard Group Finance equal in right of payment to all of its existing and future unsecured and unsubordinated indebtedness. The senior notes will mature (a) in the event of a successful remarketing, on any date no earlier than , 2010 and no later than , 2035, as we may elect, (b) in the event of a failed remarketing, on the stock purchase date and (c) otherwise on , 2035. Each senior note will initially bear interest at the rate of % per year, payable quarterly in arrears on , , and of each year, commencing , 2005, with the last quarterly payment occurring on , 2008. After that date, interest will be paid semiannually in arrears on and of each year, through the maturity date of the senior notes.

Lazard Group Finance will use the net proceeds from the ESU offering to purchase notes from Lazard Group, the terms of which are described below. The Lazard Group notes will be pledged to secure the obligations of Lazard Group Finance under the senior notes. The ability of Lazard Group Finance to pay its obligations under the senior notes depends on its ability to obtain interest and principal payments on the Lazard Group notes. The Lazard Group notes will have the following terms and conditions:

the aggregate principal amount of the Lazard Group notes will be equal to the aggregate principal amount of the senior notes,

the notes will accrue interest at a rate equivalent to the interest rate applicable from time to time on the senior notes,

the notes will mature on the same date as the senior notes,

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the notes will be a senior, unsecured obligation of Lazard Group, ranking *pari passu* with all other senior, unsecured indebtedness of Lazard Group, and

the notes will be issued in denominations of \$1,000 and integral multiples thereof.

As noted above, the Lazard Group notes will be a senior, unsecured obligation of Lazard Group. The senior notes and the Lazard Group notes, however, will rank effectively junior to the indebtedness of any subsidiary of Lazard Group. As of December 31, 2004, on a pro forma basis, there was

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approximately \$1.7 billion of liabilities and other obligations including certain minority interests (other than intercompany liabilities and obligations) of subsidiaries of Lazard Group that would have ranked senior to the senior notes and the Lazard Group notes as a result of this structural subordination. The senior notes and the Lazard Group notes do not limit the ability of Lazard Ltd, or Lazard Group or any of their respective subsidiaries to incur indebtedness.

Remarketing

Through a remarketing by a nationally-recognized investment banking firm, the senior notes held by the holders of normal units (as well as separately held senior notes) that are participating in the remarketing will be sold and the net cash proceeds, less the remarketing fee, will be paid directly to Lazard Ltd in settlement of the obligations of the holders of normal units to purchase shares of our common stock. Upon a remarketing of the senior notes, the interest rate, payment dates and maturity date on the Lazard Group notes also will be reset on the same terms such that the interest rate, payment dates and maturity date on the Lazard Group notes are the same as those for the senior notes.

A holder of normal units may elect not to participate in any remarketing and, instead, may retain the ownership interests in senior notes underlying those normal units by delivering to the collateral agent, in respect of each senior note to be retained, cash in the amount and on the date specified in the remarketing notice to satisfy its obligations under the related purchase contracts. Whether or not a holder of normal units participates in the remarketing, the interest rate, payment dates and maturity date on the senior notes that form part of those units nevertheless will be reset if the remarketing is successful.

Reset Rate

The senior notes will bear interest from the original issuance date. If the senior notes are successfully remarketed, they will pay interest at the reset rate, described below, from the settlement date of a successful remarketing until they mature. The reset rate will be the rate sufficient to cause the then current market value of each outstanding senior note to be equal to 100.5% of the principal amount of the senior note. We anticipate that the settlement date of any successful remarketing will be on or before _____, 2008.

The reset rate will be determined by the remarketing agent during the seven business day period beginning on the ninth business day prior to the stock purchase date and ending on the third business day prior to the stock purchase date. If the remarketing agent fails to remarket the senior notes participating in the remarketing by the end of the third business day immediately preceding the stock purchase date, Lazard Ltd will be entitled to exercise its rights as a secured party with respect to such senior notes and, subject to applicable law, may retain the pledged senior notes or treasury securities, as the case may be, or sell them in one or more public or private sales to satisfy in full such holder's obligation to purchase shares of common stock under the related purchase contracts.

The reset of the interest rate on the senior notes in connection with a successful remarketing will not change the amount of the interest due to holders of normal units on the stock purchase date, which will be at the initial annual rate of _____%.

Special Event Redemption

If a special event occurs and is continuing, Lazard Group Finance may, at its option, redeem the senior notes in whole, but not in part, at any time at the redemption price for each senior note referred to below. If, following the occurrence of a special event, Lazard Group Finance exercises its option to redeem the senior notes, the proceeds of the redemption will be payable in cash to the holders of the

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senior notes. If a special event redemption occurs prior to a successful remarketing of the senior notes, the redemption price for the senior notes forming part of normal units at the time of the special event redemption will be distributed to the collateral agent, who in turn will purchase the applicable treasury portfolio described below on behalf of the holders of normal units and remit the remainder of the redemption price, if any, to a purchase contract agent for payment to such holders. The treasury portfolio will be substituted for the redeemed senior notes and will be pledged to the collateral agent to secure the obligations of the holders of the normal units to purchase the shares of common stock under the purchase contracts.

Special event means either a redemption accounting event or a tax event.

Redemption accounting event means the receipt, at any time prior to the earlier of the date of any successful remarketing of the senior notes and the stock purchase date, by the audit committee of our Board of Directors of a written report in accordance with Statement on Auditing Standards (SAS) No. 97, Amendment to SAS No. 50 Reports on the Application of Accounting Principles, from our independent auditors, provided at the request of management, to the effect that, as a result of any change in accounting rules or interpretations thereof after the date of this prospectus, we must either (a) account for the purchase contracts under SAFS No. 133, Accounting for Derivative Instruments and Hedging Activities (or otherwise mark-to-market or measure the fair value of all or any portion of the purchase contracts with changes appearing in our statement of income. (or any successor accounting standard) or (b) account for the units using the if-converted method under SFAS 128 Earnings Per Share (or any successor accounting standard), and that such accounting treatment will cease to apply upon redemption of the senior notes.

Tax event means the receipt by Lazard Group Finance of an opinion of nationally recognized tax counsel to the effect that there is more than an insubstantial increase in the risk that interest payable by Lazard Group Finance on the senior notes on the next interest payment date is not, or within 90 days of the date of such opinion, will not be deductible, in whole or in part, by Lazard Group for U.S. federal income tax purposes as a result of (i) any amendment to, change in, or announced proposed change in, the laws, or any regulations thereunder, of the U.S. or any political subdivision or taxing authority thereof or therein affecting taxation (other than any such amendment, change or announced proposed change to the so-called earnings stripping provisions of Section 163(j) of the Code, which limit the ability of U.S. corporations to deduct interest on certain debt owed to or guaranteed by related foreign persons), (ii) any amendment to or change in an official interpretation or application of any such laws or regulations by any legislative body, court, governmental agency or regulatory authority or (iii) any official interpretation, pronouncement or application that provides for a position with respect to any such laws or regulations that differs from the generally accepted position on the date of this prospectus, which amendment, change or proposed change is effective or which interpretation or pronouncement is announced on or after the date of the prospectus for the equity security units.

If a special event redemption occurs prior to a successful remarketing of the senior notes, the treasury portfolio to be purchased on behalf of the holders of the normal units will consist of a portfolio of zero coupon U.S. treasury securities consisting of (i) interest or principal strips of U.S. treasury securities that mature on or prior to the stock purchase date, in an aggregate amount equal to the aggregate principal amount of the senior notes included in the normal units on the special event redemption date and (ii) with respect to each scheduled interest payment date on the senior notes that occurs after the special event redemption date, and on or before , 2008, interest or principal strips of U.S. treasury securities that mature on or prior to that interest payment date in an aggregate amount equal to the aggregate interest payment that would be due on the aggregate principal amount of the senior notes included in the normal units on that date if the interest rate of the senior notes were not reset, on the applicable remarketing date. These treasury securities would be non-callable by Lazard Group Finance.

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Redemption price means for each senior note, whether or not included in a normal unit, the greater of (a) the principal amount of the senior notes and (b) the product of the principal amount of the senior note and a fraction the numerator of which is the treasury portfolio purchase price and the denominator of which is, in the case of a special event redemption occurring prior to a successful remarketing of the senior notes, the aggregate principal amount of senior notes included in normal units, and in the case of a tax event redemption date occurring after a successful remarketing of the senior notes, the aggregate principal amount of the senior notes. Depending on the amount of the treasury portfolio purchase price, the redemption amount could be less than or greater than the principal amount of the senior notes.

Settlement

The settlement rate is the number of newly issued shares of common stock that Lazard Ltd is obligated to sell, and the holder of the unit is obligated to purchase, upon settlement of a purchase contract on the stock purchase date. The number of shares of common stock the holder will receive will depend on the price of our common stock on each of the 20 trading days beginning on _____, 2008. On each of those 20 trading days, a formula will be applied to that day's closing price for our common stock, and the results of the 20 days' calculations will be added to determine the total number of shares of common stock that the holder will receive on the stock purchase date. Under that formula, the settlement rate for each purchase contract, subject to any then applicable anti-dilution adjustments, will be an amount equal to the sum of:

for each of those 20 trading days on which the closing price for Lazard Ltd's common stock is less than or equal to the reference price (as defined below), a fraction of a share of Lazard Ltd's common stock per purchase contract equal to:

$$1/20 \times \$25/\text{reference price},$$

for each of those 20 trading days on which the closing price for Lazard Ltd's common stock is greater than the reference price but less than the threshold appreciation price (as defined below), a fraction of a share of Lazard Ltd's common stock per purchase contract equal to:

$$1/20 \times \$25/\text{closing price},$$

and

for each of those 20 trading days on which the closing price for Lazard Ltd's common stock is greater than or equal to the threshold appreciation price, a fraction of a share of Lazard Ltd's common stock per purchase contract equal to:

$$1/20 \times \$25/\text{threshold appreciation price}.$$

The reference price is \$ _____, which is the initial public offering price of Lazard Ltd's common stock. The threshold appreciation price is \$ _____, which is _____ % of the reference price.

In addition to the remarketing, the holder's obligations under the purchase contract may be satisfied:

if the holder has elected not to participate in the remarketing by delivering treasury securities to secure its obligations under the purchase contract and, in certain other circumstances, through the application of the cash payments received upon maturity of the treasury securities,

through the early delivery of cash to the purchase contract agent on or prior to the thirteenth business day prior to the stock purchase date,

by delivering a notice to settle for cash along with the requisite amount of cash on the thirteenth business day prior to the stock purchase date, or

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if Lazard Ltd is involved in a merger, acquisition or consolidation prior to the stock purchase date in which at least 30% of the consideration for the shares of common stock consists of cash or cash equivalents, through an early settlement.

In addition, the purchase contracts, our related rights and obligations and those of the holders of the units, including their obligations to purchase shares of our common stock, will automatically terminate upon the occurrence of bankruptcy, insolvency or reorganization of Lazard Ltd, Lazard Group or Lazard Group Finance. Upon termination, the senior notes or treasury securities pledged to secure the holder's obligations under the purchase contract will be released and distributed to the holder.

Listing

Our equity security units have been approved for listing on the NYSE under the symbol LDZ .

Accounting Treatment

The proceeds from the sale of the units will be allocated between the purchase contracts and the senior notes based on the fair value of each at the date of the offering. We expect the fair value of each purchase contract to be \$0.

We expect to recognize the present value of the quarterly purchase contract adjustment as a liability with an offsetting reduction in stockholders' equity. There may be circumstances that would require us to record the purchase contract at fair value, with subsequent changes in fair value reported in earnings and disclosed in the financial statements. The quarterly purchase contract adjustment payments will be allocated between the liability recognized at the date of issuance and the interest expense based on a constant rate calculation over the term of the purchase contract.

The quarterly and, after successful remarketing, semi-annual interest payments on the senior notes will be recognized as interest expense.

The purchase contracts are forward transactions in shares of our common stock. Upon settlement of a purchase contract, Lazard Ltd will receive \$25 on that purchase contract and will issue the requisite number of shares of our common stock. The \$25 Lazard Ltd receives will be credited to stockholders' equity and allocated between our common stock and additional paid-in capital.

Fees and expenses incurred in connection with this offering will be allocated between the senior notes and the purchase contracts. The amount allocated to the senior notes will be deferred and recognized as interest expense over the term of the senior notes. The amount allocated to the purchase contracts will be charged to stockholders' equity.

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DESCRIPTION OF INDEBTEDNESS

The following are summaries of the material terms and conditions of our principal indebtedness.

Credit Facilities

Lazard Group entered into a commitment letter dated April 14, 2005 that provides that, subject to customary conditions precedent for transactions of this nature, including the consummation of this offering, a group of lenders will provide a five-year \$125 million revolving credit facility for Lazard Group and a separate \$25 million subordinated credit facility for Lazard Frères & Co. LLC, our U.S. broker dealer. The Lazard Frères & Co. LLC facility will be a four-year revolving credit facility, and then will continue as a term loan facility for an additional year. Each facility will contain customary affirmative and negative covenants and events of default for facilities of this type. The facilities will, among other things, limit the ability of the borrower to incur debt, grant liens, pay dividends, enter into mergers or to sell all or substantially all of its assets. In addition, each facility will contain financial covenants that must be maintained. The Lazard Frères & Co. LLC facility is intended to qualify as a satisfactory subordination agreement in accordance with the applicable NASD rules and regulations.

Lazard Group Senior Notes

Concurrently with this offering and as part of the additional financing transactions, we are privately placing \$650 million aggregate principal amount of % senior notes due , 2015. Interest on the notes is due on and of each year, and the maturity date of the notes is . The notes are unsecured.

The indenture governing the Lazard Group senior notes will contain covenants that limit our ability and that of our subsidiaries, subject to important exceptions and qualifications, to, among other things create a lien on any shares of capital stock of any designated subsidiary, and consolidate, merge or transfer all or substantially all of our assets and the assets of our subsidiaries. The indenture governing the Lazard Group Senior Notes also may contain a customary make-whole provision in the event of early redemption.

Lazard Group Finance Senior Notes

Each unit of the equity security units issued in the ESU offering will consist of a purchase contract which will obligate the holder to purchase, and Lazard Ltd to sell, for \$25 newly issued shares of our common stock on , 2008 and a 1/40, or 2.5%, ownership interest in a % senior note of Lazard Group Finance with a principal amount of \$1,000. The senior notes will be senior obligations of Lazard Group Finance. Lazard Group will issue Lazard Group notes to Lazard Group Finance in connection with the ESU offering. See Description of the Equity Security Units.

IXIS Investment in Exchangeable Debt Securities

Exchangeable Debt Securities

We have entered into an investment agreement with IXIS as part of the additional financing transactions. Under the investment agreement, IXIS has agreed to purchase an aggregate of \$200 million of securities concurrently with this offering, \$150 million of which will be debt securities of a financing subsidiary that are effectively exchangeable into shares of our common stock and \$50 million of which will be shares of our common stock. Description of Capital Stock IXIS Investment in Our Common Stock. Lazard Group will issue Lazard Group notes to the financing subsidiary. Any such Lazard Group notes will have the same terms as the Lazard Group notes issued in the ESU offering. In the event that we choose to issue exchangeable debt securities with terms other than those agreed to by IXIS in the investment agreement, IXIS will have ten business days to choose to accept those securities. If they do not so choose, the investment agreement with IXIS will terminate automatically.

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The features of the exchangeable debt securities to be purchased by IXIS will be as agreed with IXIS and will be the same as those we sell to the public in a registered public offering or qualified institutional investors in a private placement. The price per security to be paid by IXIS will be equal to the initial public offering price in a registered public offering of securities or the price offered to qualified institutional investors in a private placement of securities, as the case may be. With respect to the exchangeable debt securities, IXIS or one of its affiliates will receive underwriting fees or commissions equal in percentage terms to those paid to the underwriters for the public offering or private placement of the exchangeable debt securities. Our obligation to sell any securities to IXIS will be conditioned upon the completion of this offering and our decision to issue the agreed upon exchangeable debt securities. IXIS's obligation to purchase any securities from us will be conditioned upon (a) the completion of this offering in an aggregate amount not less than \$500 million, exclusive of the amount invested by IXIS, (b) the acceptance for listing of our common stock on the NYSE, subject to official notice of issuance and other customary initial listing conditions, and (c) the completion of the public offering or private placement of exchangeable debt securities in an aggregate amount of not less than \$200 million exclusive of the amount invested by IXIS. IXIS has informed us that it has relied upon descriptions of Bruce Wasserstein's intention to roll forward his historical partner interest into Lazard Ltd, and, with respect to the other working partners, the non-compete undertakings and the undertakings relating to their equity interests, in the aggregate. Consequently, in the event that there were to occur prior to the completion of this offering a fundamental change in either of the arrangements which would materially and adversely affect this offering, IXIS has stated that it reserves the right to void its undertaking to make the agreed upon investment.

Board Composition

In connection with IXIS's investment in us as part of the additional financing transactions, we have agreed that we will nominate one person designated by IXIS to our board of directors until such time as: (i) the shares of our common stock then owned by IXIS, plus (ii) the shares of our common stock issuable under the terms of any exchangeable securities issued by us then owned by IXIS, constitute less than 50% of the sum of (x) the shares of our common stock initially purchased by IXIS, plus (y) the shares of our common stock issuable under the terms of any exchangeable securities issued by us initially purchased by IXIS.

Registration Rights

Pursuant to a registration rights agreement, we have agreed to grant IXIS registration rights with respect to our securities held by them. The IXIS registration rights agreement will provide that holders of those securities generally will have unlimited piggyback registration rights. The registration rights agreement also will grant IXIS one demand registration right requiring that we register the debt securities held by IXIS, provided that the amount of securities subject to such demand constitutes at least 33% of the debt securities held by IXIS.

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MATERIAL U.S. FEDERAL INCOME TAX AND BERMUDA TAX

CONSIDERATIONS

The following summary of our taxation and the taxation of our stockholders is based upon current law and does not purport to be a comprehensive discussion of all the tax considerations that may be relevant to a decision to purchase common shares. Legislative, judicial or administrative changes may be forthcoming that could affect this summary.

The following legal discussion (including, and subject to, the matters and qualifications set forth in such discussion) of the material tax considerations under (1) Taxation of Stockholders Bermuda Taxation, to the extent they are statements of Bermuda law, constitutes the opinion of Conyers Dill & Pearman, special Bermuda counsel to Lazard Ltd, and (2) Taxation of Stockholders U.S. Federal Income Taxation to the extent they are conclusions as to the application of U.S. federal income tax law, constitutes the opinion of Wachtell, Lipton, Rosen & Katz, special U.S. counsel to Lazard Ltd. The advice of such firms does not include any factual or accounting matters, determinations or conclusions, such as amounts and computations or facts relating to the business, income, activities, or ownership of Lazard. The discussion is based upon current law, including the Code. Legislative, judicial or administrative changes or interpretations may be forthcoming that could be retroactive and could affect the tax consequences to holders of common shares. The tax treatment of a holder of common shares, or of a person treated as a holder of common shares for federal income, state, local or foreign tax purposes, may vary depending on the holder's particular tax situation. Statements contained herein as to the beliefs, expectations and conditions of Lazard and its subsidiaries, as they relate to the application of such tax laws or facts, represent the view of management and do not represent the opinions of counsel. **PROSPECTIVE INVESTORS (INCLUDING ALL NON-U.S. PERSONS AS DEFINED BELOW) SHOULD CONSULT THEIR OWN TAX ADVISORS CONCERNING THE U.S. FEDERAL, STATE, LOCAL AND FOREIGN TAX CONSEQUENCES OF OWNING COMMON SHARES UNDER THE LAWS OF THEIR COUNTRIES OF CITIZENSHIP, RESIDENCE, ORDINARY RESIDENCE OR DOMICILE.**

Taxation of Lazard and Its Subsidiaries

Bermuda

At the present time, Lazard Ltd is not subject to any Bermuda income or profits tax, withholding tax, capital gains tax, capital transfer tax, estate duty or inheritance tax. Lazard Ltd has obtained an assurance from the Minister of Finance of Bermuda under the Exempted Undertakings Tax Protection Act 1966 that, in the event that any legislation is enacted in Bermuda imposing any tax computed on profits or income, or computed on any capital asset, gain or appreciation or any tax in the nature of estate duty or inheritance tax, such tax shall not, until March 28, 2016, be applicable to Lazard Ltd or to any of Lazard Ltd's operations or to our shares, debentures or other obligations except insofar as such tax applies to persons ordinarily resident in Bermuda or to any taxes payable by us in respect of real property owned or leased by us in Bermuda.

United States

Partnership Status of Lazard Ltd. In connection with Lazard Ltd's formation, Lazard Ltd made an election to be treated as a partnership for U.S. federal income tax purposes. An entity that is treated as a partnership for U.S. federal income tax purposes is not a taxable entity and incurs no U.S. federal income tax liability. Instead, each partner is required to take into account its allocable

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share of items of income, gain, loss, and deduction of the partnership in computing its U.S. federal income tax liability, regardless of whether cash distributions are made. Distributions of cash by a partnership to a partner are generally not taxable unless the amount of cash distributed to a partner is in excess of the partner's adjusted basis in its partnership interest.

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Because Lazard Ltd is a publicly traded partnership within the meaning of Section 7704(b) of the Code, Lazard Ltd will be taxable as a corporation unless 90% or more of its gross income (which does not include the income of its corporate subsidiaries) for each taxable year beginning with the current year is qualifying income. For this purpose, qualifying income includes interest (other than interest derived in the conduct of a financial business), dividends, and gains from capital assets held for the production of interest or dividends. Although certain of Lazard Group's corporate subsidiaries will conduct a financial business (which gives rise to income that would not be qualifying income), Lazard Ltd does not believe, on the basis of all the facts and circumstances, that it will be treated as conducting a financial business within the meaning of Section 7704 of the Code. However, the IRS may challenge this position. While we intend to manage our affairs so that Lazard Ltd will meet the 90% test in each taxable year, we may not, however, be able to do so.

Wachtell, Lipton, Rosen & Katz is of the opinion that, on the basis of factual statements and representations made by us, including statements and representations as to the manner in which we intend to manage our affairs, Lazard Ltd will be treated as a partnership and not as a corporation for U.S. federal income tax purposes. The remainder of this discussion assumes that Lazard Ltd will be so treated. However, opinions of counsel are not binding upon the IRS or any court, and the IRS may challenge this conclusion and a court may sustain such a challenge.

U.S. Subsidiaries and Effectively Connected Income of Non-U.S. Subsidiaries. Lazard Group has been structured as a limited liability company, which is treated as a partnership for U.S. federal income tax purposes. As members of Lazard Group, certain U.S. subsidiaries of Lazard Ltd will be subject to U.S. federal income tax on a net income basis on their share of the income of Lazard Group and its subsidiaries. In addition, certain non-U.S. subsidiaries of Lazard Ltd will be subject to U.S. federal income tax on a net income basis on the income of Lazard Group and its subsidiaries that is effectively connected with their conduct of a trade or business in the U.S. In addition, those non-U.S. Lazard Ltd subsidiaries will be subject to a branch profits tax on their effectively connected earnings and profits (as determined for U.S. federal income tax purposes), with certain adjustments. The branch profits tax is imposed at a rate of 30%, unless an applicable income tax treaty provides for a lower rate. The eligibility of Lazard Ltd's non-U.S. subsidiaries for treaty benefits depends upon their being qualified residents of their country, which in turn depends upon, among other things, at least 50% of the principal class their shares being considered ultimately owned by U.S. citizens or persons that are qualified residents of the U.S. or of the treaty partner. We expect that these subsidiaries initially will be eligible for benefits under the income tax treaty between the U.S. and relevant foreign country, which provides for a maximum branch profits tax rate of 5%. This requirement may not, however, be satisfied in any taxable year and we may not be able to document that fact to the satisfaction of the IRS.

Recently enacted legislation provides that non-U.S. corporations meeting certain ownership, operational and other tests may be treated as U.S. corporations for U.S. federal income tax purposes and, thus, be subject to U.S. federal income tax on their worldwide income. Lazard Ltd does not believe this legislation or any regulation promulgated within the scope of the legislation's regulatory authority will apply to Lazard Ltd or its non-U.S. subsidiaries. See Risk Factors Risks Related to Our Business In the event of a change or adverse interpretation of relevant income tax law, regulation or treaty, or a failure to qualify for treaty benefits, our overall tax rate may be substantially higher than the rate used for purposes of our pro forma financial statements.

Personal Holding Companies. Any of Lazard Ltd's U.S. subsidiaries could be subject to additional U.S. tax on a portion of its income if any of them is considered to be a personal holding company, or PHC, for U.S. federal income tax purposes. A U.S. corporation generally will be classified as a PHC for U.S. federal income tax purposes in a given taxable year if (1) at any time during the last half of such taxable year, five or fewer individuals (without regard to their citizenship or

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residency and including as individuals for this purpose certain entities such as certain tax-exempt organizations and pension funds) own or are deemed to own (pursuant to certain constructive ownership rules) more than 50% of the stock of the corporation by value and (2) at least 60% of the corporation's adjusted ordinary gross income, as determined for U.S. federal income tax purposes, for such taxable year consists of PHC income (which includes, among other things, dividends, interest, royalties, annuities and, under certain circumstances, rents). The PHC rules do not apply to non-U.S. corporations.

We believe that five or fewer individuals or tax-exempt organizations will be treated as owning more than 50% of the value of our shares. Consequently, one or more of our U.S. subsidiaries could be or become PHCs, depending on whether any such subsidiaries satisfy the PHC gross income test. We intend to cause our subsidiaries to manage their affairs in a manner that reduces the possibility that any of them will meet the 60% income threshold. We cannot be certain, however, that Lazard Ltd's subsidiaries will not become PHCs following this offering or in the future.

If any of Lazard Ltd's U.S. subsidiaries is or were to become a PHC in a given taxable year, such company would be subject to an additional 15% PHC tax on its undistributed PHC income, which generally includes the company's taxable income, subject to certain adjustments. For taxable years beginning after December 31, 2008, the PHC tax rate on undistributed PHC income will be equal to the highest marginal rate on ordinary income applicable to individuals. Consequently, if Lazard Ltd's U.S. subsidiaries were to become PHCs, the amount of PHC income may be material.

Taxation of Stockholders

Bermuda Taxation

Under current Bermuda law, there is no Bermuda income or profits tax, withholding tax, capital gains tax, capital transfer tax, estate duty or inheritance tax payable by our stockholders in respect of our common stock.

U.S. Federal Income Taxation

The following summary sets forth the material U.S. federal income tax considerations related to the purchase, ownership and disposition of our common shares. Unless otherwise stated, this summary deals only with stockholders that are U.S. Persons (as defined below) who purchase their common shares in this offering, who did not own (directly or indirectly, through foreign entities or constructively) shares of Lazard Ltd prior to this offering and who hold their common shares as capital assets within the meaning of Section 1221 of the Code. The following discussion is only a discussion of the material U.S. federal income tax matters as described herein and does not purport to address all of the U.S. federal income tax consequences that may be relevant to a particular stockholder in light of such stockholder's specific circumstances. For example, if a partnership holds our common shares, the tax treatment of a partner will generally depend on the status of the partner and the activities of the partnership. If you are a partner of a partnership holding common shares, you should consult your tax advisor. In addition, except as expressly stated, the following summary does not address the U.S. federal income tax consequences that may be relevant to special classes of stockholders who may be subject to special rules or treatment under the Code, such as financial institutions, insurance companies, regulated investment companies, real estate investment trusts, partnerships or other pass-through entities, financial asset securitization investment trusts, dealers or traders in securities, tax-exempt organizations, expatriates, any person who owns or is deemed to own 10% or more of the total combined voting power of all classes of shares of Lazard Ltd entitled to vote, any person who holds common shares as part of a hedging or conversion transaction or as part of a short-sale or straddle or any individual

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who is a non-U.S. Person (as defined below) and who is present in the U.S. for 183 days or more in a taxable year. This discussion does not include any description of the tax laws of any state or local governments within the U.S. and this discussion does not address any aspects of estate and gift taxation.

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For purposes of this discussion, the term "U.S. Person" means (1) a citizen or resident of the U.S., (2) a corporation created or organized in or under the laws of the U.S., or any political subdivision thereof (including the District of Columbia), (3) an estate the income of which is subject to U.S. federal income taxation regardless of its source, (4) a trust if either (a) a court within the U.S. is able to exercise primary supervision over the administration of such trust and one or more U.S. Persons have the authority to control all substantial decisions of such trust or (b) the trust has a valid election in effect to be treated as a U.S. Person for U.S. federal income tax purposes or (5) any other person or entity that is treated for U.S. federal income tax purposes as if it were one of the foregoing. The term "non-U.S. Person" means any person other than a U.S. Person.

Partner Status. Beneficial owners of shares who are also stockholders of record of Lazard Ltd will be treated as partners of Lazard Ltd for U.S. federal income tax purposes. Beneficial owners whose common shares are held in street name or by a nominee and who have the right to direct the nominee in the exercise of all substantive rights attendant to the ownership of their common shares also will be treated as partners of Lazard Ltd for U.S. federal income tax purposes.

A beneficial owner of common shares whose common shares have been transferred to a short seller to complete a short sale would appear to lose its status as a partner with respect to these common shares for U.S. federal income tax purposes. Please read "Treatment of Shares Lent to Short Sellers."

Flow-Through of Taxable Income. Lazard Ltd will not pay any U.S. federal income tax. Instead, each stockholder will be required to report on its income tax return its allocable share of Lazard Ltd's income, gains, losses, and deductions without regard to whether corresponding cash distributions are received by that stockholder. Although we generally intend to operate our business so that Lazard Ltd's only net income consists of dividends received from its subsidiaries (and possibly interest), and we intend to allocate that income to the stockholders of Lazard Ltd to whom it is distributed, a stockholder may be allocated a share of Lazard Ltd's income even if it has not received a cash distribution. Each stockholder must include in income its allocable share of our income, gain, loss, and deduction for our taxable year ending with or within such stockholder's taxable year.

We expect that Lazard Ltd's gross income will be derived principally from distributions on, and redemptions of, shares of its wholly-owned subsidiaries' stock. Such distributions and redemptions will be taxable as dividend income to the extent of the payor corporation's current and accumulated earnings and profits, as determined for U.S. federal income tax purposes, then treated as a tax-free return of capital to the extent of our basis in the payor corporation's stock, and thereafter taxed as capital gain.

To the extent received by Lazard Ltd from a U.S. subsidiary, such dividend income received before 2009 that is allocable to individual Lazard Ltd stockholders that are U.S. Persons should be eligible for reduced rates of tax, provided that certain holding period requirements are satisfied.

Subject to the discussions below relating to the potential application of the passive foreign investment company, or "PFIC," rules to Lazard Ltd's non-U.S. subsidiaries, dividend income received from Lazard Ltd's non-U.S. subsidiary before 2009 that is allocable to individual Lazard Ltd stockholders that are U.S. Persons should be characterized as "qualified dividend income" eligible for reduced rates of tax, provided that certain holding period requirements are satisfied and that the payor corporation is a "qualified resident" of the relevant treaty partner as described above.

Treatment of Distributions. Lazard Ltd's distributions to a stockholder generally will not be taxable to the stockholder for U.S. federal income tax purposes to the extent of its tax basis in its common shares immediately before the distribution. Lazard Ltd's

cash distributions in excess of a stockholder's tax basis generally will be considered to be gain from the sale or exchange of the

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common shares, taxable in accordance with the rules described under "Dispositions of Common Shares" below. Any reduction in a stockholder's share of Lazard Ltd's liabilities, if any, for which no partner bears the economic risk of loss, known as nonrecourse liabilities, will be treated as a distribution of cash to that stockholder. A decrease in a stockholder's percentage interest in Lazard Ltd because of Lazard Ltd's issuance of additional common shares would decrease its share of Lazard Ltd's nonrecourse liabilities, if any, and thus would result in a corresponding deemed distribution of cash. However, we generally intend to operate Lazard Ltd's business so that Lazard Ltd has no direct nonrecourse liabilities.

Basis of Common Shares. A stockholder will have an initial tax basis for its common shares equal to the amount it paid for the common shares plus its share of Lazard Ltd's nonrecourse liabilities, if any. That basis will be increased by its share of Lazard Ltd income and by any increases in its share of Lazard Ltd's nonrecourse liabilities, if any. That basis will be decreased, but not below zero, by distributions from Lazard Ltd, by the stockholder's share of Lazard Ltd's losses, by any decrease in its share of Lazard Ltd's nonrecourse liabilities (if any) and by its share of Lazard Ltd expenditures that are not deductible in computing our taxable income and are not required to be capitalized.

Limitations on Deductibility of Our Losses. Because we do not expect Lazard Ltd to hold any significant assets other than stock of its subsidiaries, Lazard Ltd will likely incur losses, if any, only under limited circumstances, including, potentially, upon a sale of some or all of the stock of its subsidiaries. If Lazard Ltd were to incur any losses, a stockholder's use of such losses could be limited under the at risk or passive loss rules.

The deduction by a stockholder of its share of Lazard Ltd's losses will be limited to the tax basis in its common shares and, in the case of an individual stockholder or a corporate stockholder that is subject to the at risk rules, to the amount for which the stockholder is considered to be at risk with respect to Lazard Ltd's activities, if that is less than its tax basis. In general, a stockholder will be at risk to the extent of the tax basis of its common shares, excluding any portion of that basis attributable to its share of Lazard Ltd's nonrecourse liabilities (if any), reduced by any amount of money it borrows to acquire or hold its common shares, if the lender of those borrowed funds owns an interest in Lazard Ltd, is related to the stockholder, or can look only to the common shares for repayment. A stockholder's at risk amount will generally increase or decrease as the tax basis of the stockholder's common shares increases or decreases. A stockholder must recapture losses deducted in previous years to the extent that distributions cause its at risk amount to be less than zero at the end of any taxable year. Losses disallowed to a stockholder or recaptured as a result of these limitations will carry forward and will be allowable to the extent that its tax basis or at risk amount, whichever is the limiting factor, subsequently increases. Upon the taxable disposition of a common share, any gain recognized by a stockholder can be offset by losses that were previously suspended by the at risk limitation but may not be offset by losses suspended by the basis limitation. Any excess loss above that gain previously suspended by the at risk or basis limitations may no longer be used.

The passive loss limitations generally provide that individuals, estates, trusts and some closely-held corporations and personal service corporations can deduct losses from passive activities only to the extent of the taxpayer's income from those passive activities. A passive activity is defined as any activity that involves the conduct of a trade or business in which the taxpayer does not materially participate or any rental activity. We anticipate that the manner in which Lazard Ltd conducts its operations will not constitute the conduct of a trade or business for purposes of the passive activity loss rules. Consequently, these rules are not expected to apply to holders of our common stock. We cannot be certain, however, that Lazard Ltd's manner of operations will not change and that holders of our common stock will not become subject to the passive activity loss rules following this offering or in the future.

Prospective investors should consult their tax advisor as to the effects of the at risk and/or passive activity loss rules.

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Limitations on Interest Deductions. The deductibility of a non-corporate taxpayer's investment interest expense is generally limited to the amount of that taxpayer's net investment income. The IRS has announced that Treasury Regulations will be issued that characterize net passive income (as determined under the passive loss limitation rules) from a publicly-traded partnership as investment income for this purpose. In addition, the stockholder's share of Lazard Ltd's dividend and interest income will be treated as investment income, although qualified dividend income subject to reduced rates of tax in the hands of an individual, as described above, will only be treated as investment income if the individual stockholder elects to treat such dividend as ordinary income not subject to reduced rates of tax. Investment interest expense includes:

interest on indebtedness properly allocable to property held for investment,

Lazard Ltd's interest expense attributed to portfolio income, if any, and

the portion of interest expense incurred to purchase or carry an interest in a passive activity to the extent attributable to portfolio income.

The computation of a stockholder's investment interest expense will take into account interest on any margin account borrowing or other loan incurred to purchase or carry a common share. Net investment income includes gross income from property held for investment and amounts treated as portfolio income under the passive loss rules, less deductible expenses, other than interest, directly connected with the production of investment income, but generally does not include gains attributable to the disposition of property held for investment.

Allocation of Income, Gain, Loss and Deduction. In general, if Lazard Ltd has a net profit or net loss, its items of income, gain, loss and deduction are allocated among the stockholders in accordance with their particular percentage interests in Lazard Ltd. However, we generally intend to operate our business so that Lazard Ltd's only net income consists of dividends received from its subsidiaries (and possibly interest), and we intend to allocate that income to the stockholders of Lazard Ltd to whom it is distributed.

Special rules generally apply to determine the allocation of a partnership's items of income, deduction, gain and loss related to contributed property (other than cash). Such special rules will have limited relevance to our stockholders because such rules will generally not adversely affect stockholders who purchase their shares directly from Lazard Ltd for cash.

An allocation of items of Lazard Ltd's income, gain, loss or deduction, will generally be given effect for U.S. federal income tax purposes in determining a partner's distributive share of an item of income, gain, loss or deduction only if the allocation has substantial economic effect. In any other case, a partner's distributive share of an item will be determined on the basis of the partner's interest in Lazard Ltd, which will be determined by taking into account all the facts and circumstances, including the partner's relative contributions to Lazard Ltd, the interests of the partners in economic profits and losses, the interests of the partners in cash flow and other nonliquidating distributions and rights of the partners to distributions of capital upon liquidation.

Although we do not expect that our operations will result in the creation of negative capital accounts, if negative capital accounts nevertheless result, items of Lazard Ltd's income and gain will be allocated in an amount and manner sufficient to eliminate the negative balance as quickly as possible.

Treatment of Shares Lent to Short Sellers. A stockholder whose common shares are loaned to a short seller to cover a short sale of common shares may be considered as having disposed of ownership of those common shares. If so, the stockholder would no longer be a partner with respect to

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those common shares during the period of the loan and, although the stockholder will receive no cash, the stockholder may recognize gain or loss from the disposition, which will generally be capital gain or loss as described below under Dispositions of Common Shares. As a result, during this period:

any of Lazard Ltd's income, gain, deduction or loss with respect to those common shares would not be reportable by the stockholder,

any cash distributions received by the stockholder with respect to those common shares would be fully taxable, and

all of these distributions would appear to be treated as ordinary income.

The holding period of a stockholder whose common shares are loaned to a short seller to cover a short sale of common shares will restart when the common shares are returned to the stockholder. Stockholders desiring to ensure their status as partners and avoid the risk of gain recognition should modify any applicable brokerage account agreements to prohibit their brokers from borrowing their common shares. The IRS has announced that it is actively studying issues relating to the tax treatment of short sales of partnership interests. Please also read Disposition of Common Shares Recognition of Gain or Loss. Stockholders whose common shares are loaned to a short seller should consult their own tax advisors with respect to their status as partners of Lazard Ltd for U.S. federal income tax purposes.

Dispositions of Common Shares

Recognition of Gain or Loss. A stockholder will recognize gain or loss on a sale of common shares equal to the difference between the amount realized and the stockholder's tax basis for the common shares sold. A stockholder's amount realized will be measured by the sum of the cash or the fair market value of other property received plus its share of Lazard Ltd's nonrecourse liabilities, if any. Because the amount realized includes a stockholder's share of Lazard Ltd's nonrecourse liabilities, if any, the gain recognized on the sale of common shares could result in a tax liability in excess of any cash received from the sale. However, we generally intend to operate our business so that Lazard Ltd has no direct nonrecourse liabilities.

Prior distributions from Lazard Ltd that decreased a stockholder's tax basis in that common share will, in effect, become taxable income if the common share is sold at a price greater than the stockholder's tax basis in that common share, even if the price is less than its original cost.

Except as noted below (and, if applicable, under Passive Foreign Investment Companies) gain or loss recognized by a stockholder on the sale or exchange of a common share will generally be taxable as capital gain or loss and as long-term capital gain or loss if the common shares were held for more than 12 months, subject (in the case of stockholders who are individuals) to tax at a maximum U.S. federal income tax rate of 15%. Net capital loss may offset no more than \$3,000 of ordinary income in the case of individuals and may only be used to offset capital gain in the case of corporations.

The IRS has ruled that a partner who acquires interests in a partnership in separate transactions must combine those interests and maintain a single adjusted tax basis for all those interests. Upon a sale or other disposition of less than all of those interests, a portion of that tax basis must be allocated to the interests sold using an equitable apportionment method. On the other hand, a

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selling stockholder who can identify common shares transferred with an ascertainable holding period may elect to use the actual holding period of the common shares transferred. A stockholder electing to use the actual holding period of common shares transferred must consistently use that identification method for all subsequent sales or exchanges of common shares.

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Section 754 Election. Lazard Ltd will make the election permitted by Section 754 of the Code. The election is irrevocable without the consent of the IRS. The election generally permits Lazard Ltd to adjust a common share purchaser's tax basis in Lazard Ltd's assets (inside basis) under Section 743(b) of the Code to reflect the common share purchaser's purchase price. This election does not apply to a person who purchases common shares directly from Lazard Ltd. The Section 743(b) adjustment belongs to the purchaser and not to other partners. For purposes of this discussion, a partner's inside basis in Lazard Ltd's assets will be considered to have two components, (1) its share of Lazard Ltd's tax basis in Lazard Ltd's assets (common basis) and (2) its Section 743(b) adjustment to that basis.

Because we do not expect Lazard Ltd to hold any significant assets other than stock of its subsidiaries, Lazard Ltd's Section 754 election will likely not be relevant to Lazard Ltd's stockholders except if Lazard Ltd sells, or is treated as selling, all or part of the stock of its subsidiaries. Generally, a Section 754 election is advantageous to a transferee stockholder if such stockholder's tax basis in its common shares is higher than the common shares' share of the aggregate tax basis of Lazard Ltd's assets immediately prior to the transfer. In that case, as a result of the election, the transferee stockholder would have a higher tax basis in its share of Lazard Ltd's assets for purposes of calculating, among other items, its share of any gain or loss on a sale of Lazard Ltd's assets. Conversely, a Section 754 election is disadvantageous to a transferee stockholder if such stockholder's tax basis in its common shares is lower than those common shares' share of the aggregate tax basis of Lazard Ltd's assets immediately prior to the transfer. Thus, the fair market value of the common shares may be affected either favorably or adversely by the election.

The calculations involved in the Section 754 election are complex, and we will make them on the basis of assumptions as to the value of Lazard Ltd's assets and other matters. The determinations we make may be successfully challenged by the IRS and any allocations resulting from them may be reduced or disallowed altogether. Should the IRS require a different basis adjustment to be made, and should, in our opinion, the expense of compliance exceed the benefit of the election, Lazard Ltd may seek permission from the IRS to revoke its Section 754 election (although Lazard Ltd will be required to make similar adjustments to a partner's inside basis in its assets under certain circumstances even if no Section 754 election is in effect). If Lazard Ltd successfully revokes its Section 754 election, a subsequent purchaser of common shares may be allocated more income than it would have been allocated had the election not been revoked.

Constructive Termination. Subject to the electing large partnership rules described below, Lazard Ltd will be considered to have been terminated for tax purposes if there is a sale or exchange of 50% or more of the total interests in Lazard Ltd's capital and profits within a 12-month period. Lazard Ltd's termination would result in the closing of Lazard Ltd's taxable year for all stockholders. In the case of a stockholder reporting on a taxable year other than a fiscal year ending December 31, the closing of Lazard Ltd's taxable year may result in more than 12 months of Lazard Ltd's taxable income or loss being includable in its taxable income for the year of termination. Lazard Ltd would be required to make new tax elections after a termination, including a new election under Section 754 of the Code. A termination could also result in penalties if Lazard Ltd were unable to determine that the termination had occurred. Moreover, a termination might either accelerate the application of, or subject us to, any tax legislation enacted before the termination.

Passive Foreign Investment Companies. In general, a foreign corporation will be a PFIC during a given year if (1) 75% or more of its gross income constitutes passive income or (2) 50% or more of its assets produce passive income.

If any of Lazard Ltd's direct non-U.S. subsidiaries were characterized as a PFIC during a given year, U.S. Persons holding common shares would be subject to adverse U.S. federal income tax consequences, including a penalty tax at the time of the sale at a gain of, or receipt of an excess

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distribution with respect to, their shares, unless such persons made a qualified electing fund election or mark-to-market election. For these purposes, stock of a PFIC that is owned by Lazard Ltd is considered as owned proportionately by Lazard Ltd's stockholders. It is uncertain that Lazard Ltd would be able to provide its stockholders with the information necessary for a U.S. Person to make a qualified electing fund election with respect to Lazard Ltd's non-U.S. subsidiaries.

We believe that none of Lazard's non-U.S. subsidiaries should be treated as a PFIC. However, actual determination of PFIC status is fundamentally factual in nature and cannot be made until the close of the applicable taxable year. Moreover, we cannot be certain that the IRS will not challenge this position and that a court will not sustain such challenge. Prospective investors should consult their tax advisor as to the effects of the PFIC rules.

U.S. Federal Income Tax Considerations for Non-U.S. Persons. Ownership of our common shares by non-U.S. Persons raises special U.S. federal income tax considerations. To the extent Lazard Ltd receives dividends from a U.S. subsidiary, distributions of such dividend income to Lazard Ltd stockholders who are non-U.S. Persons will be subject to U.S. withholding tax at a rate of 30%. A non-U.S. Person's ability to lower such withholding rate under an applicable income tax treaty will likely be limited due to special rules under the Code relating to hybrid entities, such as Lazard Ltd, which is a partnership for U.S. federal income tax purposes but which may not be under the laws of the non-U.S. Person's country of residence.

To the extent Lazard Ltd receives dividends from a non-U.S. subsidiary, distributions of such dividend income to Lazard Ltd stockholders who are non-U.S. Persons will not be subject to U.S. tax, unless such income were deemed to be effectively connected with a trade or business conducted by Lazard Ltd or the recipient stockholder in the U.S.

While we intend to manage our affairs so that Lazard Ltd will not be engaged in a trade or business in the U.S., we may not, however, be able to do so. If Lazard Ltd were engaged in a trade or business in the U.S., non-U.S. Persons that own our common shares will be considered to be engaged in business in the U.S. and will be subject to U.S. federal income tax on a net income basis at regular rates on effectively connected income.

Lazard Ltd will be required to pay withholding tax with respect to the portion of Lazard Ltd's income that is effectively connected with the conduct of a U.S. trade or business and which is allocable to non-U.S. Persons that hold our common shares. Under rules applicable to publicly-traded partnerships, Lazard Ltd will withhold taxes on actual cash distributions attributable to effectively connected income made quarterly to stockholders that are non-U.S. Persons at the highest marginal rate applicable to individuals at the time of the distribution. Each stockholder that is a non-U.S. Person must obtain a taxpayer identification number from the IRS and submit that number to Lazard Ltd's transfer agent on a Form W-8BEN or applicable substitute form in order to obtain credit for the taxes withheld or to claim the benefits of an applicable tax treaty. A change in applicable law may require us to change these procedures.

If Lazard Ltd is unable to avoid being considered to be engaged in a trade or business in the U.S., a foreign corporation that owns common shares may be subject to U.S. branch profits tax at a rate of 30%, in addition to regular federal income tax, on its allocable share of Lazard Ltd's income and gain, as adjusted for changes in the foreign corporation's U.S. net equity, which are effectively connected with the conduct of a U.S. trade or business. That tax may be reduced or eliminated by an income tax treaty between the U.S. and the country of which the foreign corporate stockholder is a qualified resident. In addition, this type of stockholder is subject to special information reporting requirements under Section 6038C of the Code.

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A stockholder that is a non-U.S. Person will be subject to U.S federal income tax upon the sale or disposition of Lazard Ltd 's common stock to the extent that such stockholder recognizes gain upon

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such sale or disposition and such gain is effectively connected with a U.S. trade or business of the stockholder. The IRS has concluded in a published ruling that a stockholder's gain will be treated as effectively connected with a U.S. trade or business of the stockholder to the extent Lazard Ltd is treated as engaged in a U.S. trade or business through a fixed place of business in the U.S. and the stockholder's gain is attributable to Lazard Ltd's U.S. source property.

Administrative Matters

Information Returns. We intend to furnish to each stockholder, within 90 days after the close of each calendar year, specific tax information, which describes each stockholder's share of Lazard Ltd's income, gain, loss and deduction for its preceding taxable year. In preparing this information, which will generally not be reviewed by counsel, we will use various accounting and reporting conventions, some of which have been mentioned in the previous discussion, to determine the stockholder's share of income, gain, loss and deduction. Any of those conventions may not yield a result that conforms to the requirements of the Code, regulations or administrative interpretations of the IRS. The IRS may successfully contend in court that those accounting and reporting conventions are impermissible. Any challenge by the IRS could negatively affect the value of the common shares.

Elective Procedures for Large Partnerships. The Code allows large partnerships to elect streamlined procedures for income tax reporting. This election would reduce the number of items that must be separately stated on the Schedules K-1 that are issued to the stockholders, and such Schedules K-1 would have to be provided to stockholders on or before the first March 15 following the close of each taxable year. In addition, this election would prevent Lazard Ltd, which will be taxed as a partnership for U.S. federal income tax purposes, from suffering a technical termination (which would close our taxable year) if, within a twelve month period, there is a sale or exchange of 50 percent or more of Lazard Ltd's total interests. When eligible, Lazard Ltd may make such an election.

Backup Withholding. For each calendar year, Lazard Ltd will report to its U.S. stockholders and to the IRS the amount of distributions that it pays, and the amount of tax (if any) that it withholds on these distributions. Under the backup withholding rules, you may be subject to backup withholding tax with respect to distributions paid unless you: (i) are a corporation or come within another exempt category and demonstrate this fact when required or (ii) provide a taxpayer identification number, certify as to no loss of exemption from backup withholding tax and otherwise comply with the applicable requirements of the backup withholding tax rules. Exempt stockholders who are U.S. Persons should indicate their exempt status on a properly completed IRS Form W-9. A non-U.S. Person may qualify as an exempt recipient by submitting a properly completed IRS Form W-8BEN. Backup withholding is not an additional tax; the amount of any backup withholding from a payment to a stockholder will be allowed as a credit against such stockholder's U.S. federal income tax liability and may entitle the stockholder to a refund.

Treatment of Amounts Withheld. If Lazard Ltd or any of its subsidiaries is required to withhold any U.S. tax on distributions made to any stockholder or to Lazard Ltd that are allocable to any stockholder, Lazard Ltd or such subsidiary will pay such withheld amount to the IRS. That payment, if made, will be treated as a distribution of cash to the stockholder with respect to whom the payment was made and will reduce the amount of cash to which such stockholder would otherwise be entitled.

Nominee Reporting. Persons who hold an interest in Lazard Ltd as a nominee for another person are required to furnish to us:

(a) the name, address and taxpayer identification number of the beneficial owner and the nominee,

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(b) whether the beneficial owner is:

(1) a person that is not a U.S. Person,

(2) a foreign government, an international organization or any wholly-owned agency or instrumentality of either of the foregoing, or

(3) a tax-exempt entity;

(c) the amount and description of common shares held, acquired or transferred for the beneficial owner, and

(d) specific information including the dates of acquisitions and transfers, means of acquisitions and transfers, and acquisition cost for purchases, as well as the amount of net proceeds from sales.

Brokers and financial institutions are required to furnish additional information, including whether they are U.S. Persons and specific information on common shares they acquire, hold or transfer for their own account. A penalty of \$50 per failure, up to a maximum of \$100,000 per calendar year, is imposed by the Code for failure to report that information to Lazard Ltd. The nominee is required to supply the beneficial owner of the common shares with the information furnished to Lazard Ltd.

Table of Contents**SHARES ELIGIBLE FOR FUTURE SALE**

Prior to this offering, there has been no public market for our common stock. Future sales of substantial amounts of our common stock in the public market, or the perception that such sales may occur, could adversely affect the prevailing market price of the common stock. Furthermore, because only a limited number of shares will be available for sale shortly after this offering due to existing contractual and legal restrictions on resale as described below, there may be sales of substantial amounts of our common stock in the public market after the restrictions lapse. This could adversely affect the prevailing market price of our common stock and our ability to raise equity capital in the future. Upon completion of this offering, there will be 33,653,846 shares of common stock outstanding (or 38,223,532 shares assuming the underwriters exercise their over-allotment option in full). Of the shares of common stock outstanding, 30,464,579 shares of common stock sold in this offering will be freely transferable without restriction or further registration under the Securities Act. In addition, we will have 66,346,154 shares of our common stock reserved for issuance in connection with the LAZ-MD Holdings exchangeable interests.

The following table reflects the timetable for exchangeability of the LAZ-MD Holdings exchangeable interests assuming continued employment of the current managing directors. As described below, exchangeability may be accelerated under certain circumstances as described in Management Arrangements with Our Managing Directors The Retention Agreements in General LAZ-MD Holdings Exchangeable Interests and Certain Relationships and Related Transactions Relationship with LAZ-MD Holdings and LFCM Holdings Master Separation Agreement LAZ-MD Holdings Exchangeable Interests.

Anniversary of offering	Number of additional shares of common stock that are expected to become available for exchange under LAZ-MD Holdings exchangeable interests
First	234,906
Second	622,872
Third	21,155,974
Fourth	20,709,760
Fifth	21,493,452
Sixth	
Seventh	
Eighth	2,129,190
Total	66,346,154

The equity security units to be issued as part of the additional financing transactions will be effectively exchangeable into up to shares of our common stock on the third anniversary of purchase. We expect that shares of common stock issued upon settlement of the purchase contracts relating to the equity security units will be freely tradeable upon issuance. The shares of our common stock that IXIS will acquire as part of the additional financing transactions generally may not be transferred for a period of 545 days from the date of purchase, but thereafter may be transferred or sold under certain circumstances. See Description of Our Capital Stock Securities Issued in the Additional Financing Transactions. Under limited, agreed upon circumstances, a few of our European managing directors will have the right to cause an early exchange of a portion of their exchangeable interests. In addition, between the first and third anniversaries of this offering, a limited number of our managing directors will be entitled to exchange a portion of their LAZ-MD Holdings exchangeable interests in connection with their anticipated future retirement from us. Our Chief Executive Officer, who has elected to exchange his interests for shares of our common stock in lieu of the cash consideration in the redemption, will hold shares of our common stock after this offering that will be available for resale upon expiration of the underwriters lock-up arrangements, subject to

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compliance with the Securities Act. See The Separation and Recapitalization Transactions and the Lazard Organizational Structure The Separation and Recapitalization Transactions The Recapitalization of LAZ-MD Holdings and Lazard Group and The Separation and Recapitalization Transactions and the Lazard Organizational Structure The Separation and Recapitalization Transactions Exchange of Working Member Interests for LAZ-MD Holdings Interests.

The shares of common stock to be received upon exchange of the LAZ-MD Holdings exchangeable interests will constitute restricted securities for purposes of the Securities Act. As a result, absent registration under the Securities Act or compliance with Rule 144 thereunder or an exemption therefrom, these shares of common stock will not be freely transferable to the public.

In general, under Rule 144 as currently in effect, a person (or persons whose shares are aggregated), including an affiliate, who beneficially owns restricted securities may not sell those securities until they have been beneficially owned for at least one year. Thereafter, the person would be entitled to sell within any three-month period a number of shares that does not exceed the greater of:

1% of the number of shares of common stock then outstanding, or

the average weekly trading volume of the common stock on the NYSE during the four calendar weeks preceding the filing with the SEC of a notice on the SEC's Form 144 with respect to such sale.

Sales under Rule 144 are also subject to certain other requirements regarding the manner of sale, notice and availability of current public information about Lazard Ltd.

Under Rule 144(k), a person who is not, and has not been at any time during the 90 days preceding a sale, an affiliate of Lazard Ltd and who has beneficially owned the shares proposed to be sold for at least two years (including the holding period of any prior owner except an affiliate) is entitled to sell such shares without complying with the manner of sale, public information, volume limitation or notice provisions of Rule 144. See Certain Relationships and Related Transactions LAZ-MD Holdings Stockholders Agreement Registration Rights.

We intend to file a registration statement on Form S-8 with the SEC to register the shares of common stock and other securities being offered under our Equity Incentive Plan. See Management The Equity Incentive Plan. We also will grant registration rights in connection with the LAZ-MD Holdings stockholders' agreement. See Certain Relationships and Related Transactions LAZ-MD Holdings Stockholders' Agreement.

Table of Contents**UNDERWRITING**

We and the underwriters named below have entered into an underwriting agreement with respect to the shares of common stock being offered. Subject to certain conditions, each underwriter has severally agreed to purchase the number of shares indicated in the following table. Goldman, Sachs & Co. is acting as sole book-running manager of this offering and is acting as the representative of the underwriters.

<u>Underwriters</u>	<u>Number of Shares</u>
Goldman, Sachs & Co.	
Citigroup Global Markets Inc.	
Lazard Frères & Co. LLC	
Merrill Lynch, Pierce, Fenner & Smith Incorporated	
Morgan Stanley & Co. Incorporated	
Credit Suisse First Boston LLC	
J.P. Morgan Securities Inc.	
Total	30,464,579

The underwriters are committed to take and pay for all of the shares being offered, if any are taken, other than the shares covered by the option described below unless and until this option is exercised.

The completion of this offering is conditioned upon the consummation of the concurrent ESU offering and the debt offering.

If the underwriters sell more shares than the total number set forth in the table above, the underwriters have an option to buy up to an additional 4,569,686 shares from us to cover such sales. They may exercise that option for 30 days. If any shares are purchased pursuant to this option, the underwriters will severally purchase shares in approximately the same proportion as set forth in the table above.

The following table shows the per share and total underwriting discounts and commissions to be paid to the underwriters by us. Such amounts are shown assuming both no exercise and full exercise of the underwriters' option to purchase 4,569,686 additional shares.

	<u>Paid by Lazard</u>	<u>No Exercise</u>	<u>Full Exercise</u>
Per Share		\$	\$
Total		\$	\$

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Shares sold by the underwriters to the public will initially be offered at the initial public offering price set forth on the cover page of this prospectus. Any shares sold by the underwriters to securities dealers may be sold at a discount of up to \$ _____ per share from the initial public offering price. Any such securities dealers may resell any shares purchased from the underwriters to certain other brokers or dealers at a discount of up to \$ _____ per share from the initial public offering price. If all of the shares are not sold at the initial public offering price, the representatives may change the offering price and the other selling terms.

Each of us, our directors and officers and all of our stockholders have agreed with the underwriters, subject to certain exceptions, not to dispose of or hedge any of their shares of common stock or securities convertible into or exchangeable for shares of common stock during the period from the date of this prospectus continuing through the date 180 days after the date of this prospectus, except with the prior written consent of Goldman, Sachs & Co. In addition, in connection with their

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participation in this offering, we have requested that each of the underwriters commit to specified limitations on their ability to hire our managing directors or employees and such underwriters have agreed to abide by such commitments for a specified period of time.

The 180-day restricted period described in the preceding paragraph will be automatically extended if during the last 17 days of the 180-day restricted period we issue an earnings release or announce material news or a material event or prior to the expiration of the 180-day restricted period, we announce that we will release earnings results during the 15-day period following the last day of the 180-day period, in which case the restrictions described in the preceding paragraph will continue to apply until the expiration of the 18-day period beginning on the issuance of the earnings release or the announcement of the material news or material event. This agreement does not apply to the shares of common stock underlying any future awards granted under the Equity Incentive Plan. See [Shares Eligible for Future Sale](#) for a discussion of certain transfer restrictions.

Prior to this offering, there has been no public market for the shares of our common stock. The initial public offering price will be negotiated between us and the representative. Among the factors to be considered in determining the initial public offering price of the shares, in addition to prevailing market conditions, will be our historical performance, estimates of our business potential and earnings prospects, an assessment of our and LAZ-MD Holdings management and the consideration of the above factors in relation to market valuation of companies in related businesses.

The common stock has been approved for listing on the NYSE under the symbol [LAZ](#). In order to meet one of the requirements for listing shares of our common stock on the NYSE, the underwriters have undertaken to sell lots of 100 or more shares to a minimum of 2,000 beneficial holders.

In connection with this offering, the underwriters may purchase and sell shares of our common stock 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 shares than they are required to purchase in this offering. Covered short sales are sales made in an amount not greater than the underwriters' option to purchase additional shares from us in this offering. The underwriters may close out any covered short position by either exercising their option to purchase additional shares or purchasing shares in the open market. In determining the source of shares to close out the covered short position, the underwriters will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which they may purchase additional shares pursuant to the option granted to them. Naked short sales are any sales in excess of such option. The underwriters must close out any naked short position by purchasing shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of shares of our common stock in the open market after pricing that could adversely affect investors who purchase in this offering. Stabilizing transactions consist of various bids for or purchases of shares of our common stock made by the underwriters in the open market prior to the completion of this offering.

The underwriters also may impose a penalty bid. This occurs when a particular underwriter repays to the underwriters a portion of the underwriting discount received by it because the representative has repurchased shares sold by or for the account of such underwriter in stabilizing or short covering transactions.

Purchases to cover a short position and stabilizing transactions may have the effect of preventing or retarding a decline in the market price of the company's stock and, together with the imposition of the penalty bid, may stabilize, maintain or otherwise affect the market price of shares of our common

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stock. As a result, the price of shares of our common stock may be higher than the price that otherwise might exist in the open market. If these activities are commenced, they may be discontinued at any time. These transactions may be effected on the NYSE, in the over-the-counter market or otherwise.

The Lazard Capital Markets division has agreed to purchase approximately 5% of the shares being offered in this offering. After the offering, because the Lazard Capital Markets division is a member of the NYSE and because of its relationship to us, it does not intend to make markets in or recommendations regarding the purchase or sale of the common stock. This may adversely affect the trading market for the common stock.

Also, because of the relationship between us and the Lazard Capital Markets division, this offering is being conducted in accordance with Rule 2720 of the Conduct Rules of the National Association of Securities Dealers, Inc. That rule requires that the initial public offering price can be no higher than that recommended by a qualified independent underwriter, as defined by the NASD. Goldman, Sachs & Co. is serving in that capacity and has performed due diligence investigations and reviewed and participated in the preparation of the registration statement of which this prospectus forms a part. Goldman, Sachs & Co. will receive \$10,000 from us as compensation for such role.

The underwriters may not confirm sales to discretionary accounts without the prior written approval of the customer.

Each underwriter has represented, warranted and agreed that: (a) it has not offered or sold and, prior to the expiry of a period of six months from the closing date, will not offer or sell any shares to persons in the U.K. except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the U.K. within the meaning of the Public Offers of Securities Regulations 1995; (b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (FSMA)) received by it in connection with the issue or sale of any shares in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and (c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the shares in, from or otherwise involving the U.K.

The shares may not be offered or sold, transferred or delivered as part of their initial distribution or at any time thereafter, directly or indirectly, to any individual or legal entity in the Netherlands other than to individuals or legal entities who or which trade or invest in securities in the conduct of their profession or trade, which includes banks, securities intermediaries, insurance companies, pension funds, other institutional investors and commercial enterprises, which, as an ancillary activity, regularly trade or invest in securities.

The shares may not be offered or sold by means of any document other than to persons whose ordinary business is to buy or sell shares or debentures, whether as principal or agent, or in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap. 32) of Hong Kong, and no advertisement, invitation or document relating to the shares may be issued, whether in Hong Kong or elsewhere, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to shares which are or are intended to be disposed of only to persons outside Hong Kong or only to professional investors within the meaning of the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made thereunder.

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This prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this prospectus and any other document or material in connection with the offer or sale, or invitation, subscription or purchase, of the securities may not be circulated or

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distributed, nor may the securities be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than under circumstances in which such offer, sale or invitation does not constitute an offer or sale, or invitation for subscription or purchase, of the securities to the public in Singapore.

The securities have not been and will not be registered under the Securities and Exchange Law of Japan (the Securities and Exchange Law) and each underwriter has agreed that it will not offer or sell any securities, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Securities and Exchange Law and any other applicable laws, regulations and ministerial guidelines of Japan.

We estimate that our share of the total expenses of this offering, excluding underwriting discounts and commissions, will be approximately \$22,484,000.

We have agreed to indemnify the several underwriters against certain liabilities, including liabilities under the Securities Act.

Certain of the underwriters and their respective affiliates have, from time to time, performed, and may in the future perform, various financial advisory and investment banking services for us, for which they have received or may receive customary fees and expenses. We and our affiliates have in the past provided, and may in the future from time to time provide, similar services to the underwriters and their affiliates on customary terms and for customary fees. An indirect, wholly-owned subsidiary of Lazard Group will be participating in the distribution of this offering. Affiliates of Citigroup Global Markets Inc. and J.P. Morgan Securities Inc. are lenders in a senior subordinated credit facility provided to Lazard Frères & Co. LLC. An affiliate of Citigroup Global Markets Inc. also is a lender in an existing senior credit facility provided to one of our affiliates in London. An affiliate of J.P. Morgan Securities Inc. also is a lender in an existing senior credit facility provided to one of our affiliates in Paris. None of these credit facilities will be repaid with the proceeds of this offering. Additionally, certain employees of some of the underwriters and their affiliates have invested their personal assets in various funds managed by our affiliates.

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LEGAL MATTERS

The validity of the shares of common stock offered hereby has been passed upon for us by Conyers Dill & Pearman, Bermuda. The validity of the shares of common stock offered hereby will be passed upon for the underwriters by Appleby Spurling Hunter. We have been represented by Wachtell, Lipton, Rosen & Katz, and the underwriters have been represented by Cravath, Swaine & Moore LLP, New York, New York. Cravath, Swaine & Moore LLP has, from time to time, represented, and will continue to represent, us, our managing directors and our affiliates, for which it has received, and will receive, customary fees and reimbursement of expenses.

EXPERTS

The consolidated financial statements as of December 31, 2003 and 2004 and for each of the three years in the period ended December 31, 2004, included in this prospectus and the related financial statement schedule included elsewhere in the registration statement have been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their reports appearing herein and elsewhere in the registration statement, and have been so included in reliance upon the reports of such firm given upon their authority as experts in accounting and auditing.

WHERE YOU CAN FIND MORE INFORMATION

We have filed with the SEC, in Washington, D.C., a registration statement on Form S-1 under the Securities Act with respect to the common stock offered hereby. This prospectus is a part of the registration statement and, as permitted by the SEC's rules, does not contain all of the information presented in the registration statement. For further information with respect to us, Lazard Group and the common stock offered hereby, reference is made to the registration statement and the exhibits and any schedules filed therewith. Statements contained in this prospectus as to the contents of any contract or other document referred to are not necessarily complete and in each instance, if such contract or document is filed as an exhibit, reference is made to the copy of such contract or other document filed as an exhibit to the registration statement, each statement being qualified in all respects by such reference. A copy of the registration statement, including the exhibits and schedules thereto, may be read and copied at the SEC's Public Reference Room at 450 Fifth Street, NW, Washington, D.C. 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an Internet site at www.sec.gov, from which interested persons can electronically access the registration statement, including the exhibits and any schedules thereto. The registration statement, including the exhibits and schedules thereto, is also available for reading and copying at the offices of the NYSE at 20 Broad Street, New York, New York 10005.

We also have filed a registration statement on Form S-1 (File No. 333-123463) relating to the ESU offering. You also may review a copy of that registration statement at the SEC's public reference room in Washington, D.C. as well as through the SEC's internet site.

As a result of this offering, we will become subject to the informational requirements of the Securities Exchange Act of 1934, as amended. We will fulfill our obligations with respect to such requirements by filing periodic reports, proxy statements and other information with the SEC. We intend to furnish our stockholders with annual reports containing consolidated financial statements certified by an independent public accounting firm. We also maintain an Internet site at www.lazard.com. **Our website and the information contained therein or connected thereto shall not be deemed to be incorporated into this prospectus or the**

registration statement of which this prospectus forms a part, and you should not rely on any such information in making your decision whether to purchase our securities.

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<u>Report of Independent Registered Public Accounting Firm</u>	F-2
<u>Consolidated Statements of Financial Condition, as of December 31, 2003 and 2004</u>	F-3
<u>Consolidated Statements of Income for the years ended December 31, 2002, 2003 and 2004</u>	F-5
<u>Consolidated Statements of Cash Flows for the years ended December 31, 2002, 2003 and 2004</u>	F-6
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<u>Notes to Consolidated Financial Statements</u>	F-8

* The historical consolidated financial statements reflect the historical results of operations and financial position of Lazard LLC (the Company or Lazard Group), including the separated businesses, for all periods presented. Accordingly, the historical financial statements do not reflect what the results of operations and financial position of Lazard Ltd or the Company would have been had these companies been stand-alone, public companies for the periods presented. Specifically, the historical results of operations do not give effect to the following matters:

The separation of the Company's Capital Markets and Other activities, which consists of equity, fixed income and convertibles sales and trading, broking, research and underwriting services, merchant banking fund management activities outside of France and specified non-operating assets and liabilities.

Payment for services rendered by the Company's managing directors, which, as a result of the Company operating as a limited liability company, historically has been accounted for as distributions from members' capital, or in some cases as minority interest, rather than as compensation and benefits expense. As a result, the Company's operating income historically has not reflected payments for services rendered by its managing directors. After this offering, Lazard Ltd will include all payments for services rendered by its managing directors in employee compensation and benefits expense.

U.S. corporate federal income taxes, since the Company has operated in the U.S. as a limited liability company that was treated as a partnership for U.S. federal income tax purposes. As a result, the Company's income has not been subject to U.S. federal income taxes. Taxes related to income earned by partnerships represent obligations of the individual partners. Outside the U.S., the Company historically has operated principally through subsidiary corporations and has been subject to local income taxes. Income taxes shown on the Company's historical consolidated statements of income are attributable to taxes incurred in non-U.S. entities and to New York City Unincorporated Business Tax (UBT) attributable to the Company's operations apportioned to New York City.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Members of

Lazard LLC:

We have audited the accompanying consolidated statements of financial condition of Lazard LLC and subsidiaries (the Company) as of December 31, 2003 and 2004, and the related consolidated statements of income, cash flows and changes in members' equity for each of the three years in the period ended December 31, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2003 and 2004, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2004, in conformity with accounting principles generally accepted in the United States of America.

/s/ Deloitte & Touche LLP

New York, New York

March 14, 2005

Table of Contents**LAZARD LLC****CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION****DECEMBER 31, 2003 AND 2004****(in thousands)**

	December 31,	
	2003	2004
ASSETS		
Cash and cash equivalents	\$ 315,817	\$ 273,668
Cash and securities segregated for regulatory purposes	82,737	82,631
Marketable investments	182,040	112,467
Securities purchased under agreements to resell	166,674	153,681
Securities owned at fair value:		
Bonds Corporate	379,405	397,258
Non-U.S. Government and agency securities	49,463	53,528
U.S. Government and agency securities pledged as collateral	38,755	98,342
Equities	28,412	48,101
	<u>496,035</u>	<u>597,229</u>
Swaps and other contractual agreements	700	666
Securities borrowed	891,976	852,266
Receivables net:		
Fees	242,340	284,376
Customers	129,336	130,668
Banks	127,721	346,285
Brokers and dealers	77,015	128,979
Other	14,684	1,216
	<u>591,096</u>	<u>891,524</u>
Long-term investments	214,429	202,644
Other investments	4,009	9,118
Property net	192,476	199,453
Goodwill	16,547	17,205
Other assets	102,693	106,672
	<u>\$ 3,257,229</u>	<u>\$ 3,499,224</u>

See notes to consolidated financial statements.

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LAZARD LLC

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION (Continued)

DECEMBER 31, 2003 AND 2004

(in thousands)

	December 31,	
	2003	2004
LIABILITIES AND MEMBERS EQUITY		
Notes payable	\$ 57,911	\$ 70,777
Securities sold under agreements to repurchase	109,351	196,338
Securities sold, not yet purchased at fair value:		
Bonds Corporate	76,480	76,425
U.S. Government and agency securities	20,575	133,775
Equities	13,562	22,281
	110,617	232,481
Swaps and other contractual agreements	3,222	4,619
Securities loaned	616,706	624,918
Payables:		
Banks	340,464	379,797
Customers	207,618	178,728
Brokers and dealers	21,979	43,057
	570,061	601,582
Accrued employee compensation	181,043	204,898
Capital lease obligations	62,167	51,546
Other liabilities	541,348	652,547
Subordinated loans	200,000	200,000
Mandatorily redeemable preferred stock	100,000	100,000
Total liabilities	2,552,426	2,939,706
Commitments and contingencies		
Minority interest	169,078	174,720
Members' equity (including \$49,777 and \$18,058 of accumulated other comprehensive income, net of tax)	535,725	384,798
Total liabilities and members' equity	\$ 3,257,229	\$ 3,499,224

See notes to consolidated financial statements.

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LAZARD LLC

CONSOLIDATED STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2002, 2003 AND 2004

(in thousands)

	Year Ended December 31,		
	2002	2003	2004
REVENUE			
Investment banking and other advisory fees	\$ 521,994	\$ 676,001	\$ 642,367
Money management fees	444,114	346,955	430,727
Commissions	60,896	53,003	65,526
Trading gains and losses net	62,231	42,499	35,508
Underwriting	23,888	27,821	54,585
Investment gains (losses), non-trading net	25,796	18,212	31,968
Interest income	63,973	47,025	47,373
Other	26,770	22,029	20,126
Total revenue	1,229,662	1,233,545	1,328,180
Interest expense	63,383	50,161	53,875
Net revenue	1,166,279	1,183,384	1,274,305
OPERATING EXPENSES			
Employee compensation and benefits	469,037	481,212	573,779
Premises and occupancy costs	82,121	98,412	96,668
Professional fees	67,862	56,121	73,547
Travel and entertainment	41,225	45,774	50,822
Communications and information services	30,103	34,199	38,848
Equipment costs	20,527	21,422	26,239
Other	79,359	56,890	56,640
Total operating expenses	790,234	794,030	916,543
OPERATING INCOME	376,045	389,354	357,762
Provision for income taxes	38,583	44,421	28,375
INCOME ALLOCABLE TO MEMBERS BEFORE MINORITY INTEREST AND EXTRAORDINARY GAIN	337,462	344,933	329,387
Minority interest	40,015	94,550	87,920
INCOME ALLOCABLE TO MEMBERS BEFORE EXTRAORDINARY GAIN	297,447	250,383	241,467
Extraordinary gain			5,507
NET INCOME ALLOCABLE TO MEMBERS	\$ 297,447	\$ 250,383	\$ 246,974

See notes to consolidated financial statements.

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LAZARD LLC

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2002, 2003 AND 2004

(in thousands)

	Year Ended December 31,		
	2002	2003	2004
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income allocable to Members	\$ 297,447	\$ 250,383	\$ 246,974
Adjustments to reconcile net income allocable to Members to net cash provided by operating activities:			
Noncash charges included in net income allocable to Members:			
Depreciation and amortization	12,156	13,994	16,938
Minority interest	40,015	94,550	87,920
(Increase) decrease in operating assets:			
Cash and securities segregated for regulatory purposes	558,700	(19,654)	106
Securities purchased under agreements to resell	247,132	(70,911)	11,444
Securities owned, at fair value and swaps and other contractual agreements	676,528	(10,017)	(71,505)
Securities borrowed	(239,570)	(420,916)	39,710
Receivables	(106,008)	101,149	(254,382)
Marketable and long-term investments	136,058	(190,433)	101,504
Other assets	14,275	8,301	(2,965)
Increase (decrease) in operating liabilities:			
Securities sold under agreements to repurchase	(510,439)	27,419	82,919
Securities sold, not yet purchased, at fair value and swaps and other contractual agreements	(288,017)	40,572	122,743
Securities loaned	201,539	415,167	8,212
Payables	(610,181)	(110,948)	(8,633)
Accrued employee compensation and other liabilities	7,429	77,865	45,296
Net cash provided by operating activities	437,064	206,521	426,281
CASH FLOWS FROM INVESTING ACTIVITIES			
Consolidation of VIEs, net of cash			110
Proceeds from formation of strategic alliance in Italy		100,000	
Additions to property	(22,938)	(56,230)	(19,012)
Disposals and retirements of property	4,995	10,208	8,606
Net cash (used in) provided by investing activities	(17,943)	53,978	(10,296)
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance of subordinated debt relating to strategic alliance in Italy		200,000	
Distributions to Members and capital withdrawals, net of issuance of interests to LAM Members in 2003 of \$27,483 relating to formation of LAM	(395,017)	(381,141)	(366,182)
Proceeds from notes payable	19,729	1,636	15,046
Repayment of notes payable	(11,844)	(22,914)	(2,179)
Repayment of capital lease obligations	(7,490)	(11,647)	(14,242)
Repayment of subordinated loans	(2,968)	(2,367)	
Proceeds from subordinated loans	2,367		
Net capital contributions and distributions from (to) minority interest stockholders	(14,605)	(70,862)	(102,330)

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Net cash used in financing activities	(409,828)	(287,295)	(469,887)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	9,538	10,100	11,753
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	18,831	(16,696)	(42,149)
CASH AND CASH EQUIVALENTS Beginning of year	313,682	332,513	315,817
CASH AND CASH EQUIVALENTS End of year	\$ 332,513	\$ 315,817	\$ 273,668
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION			
Cash paid during the year for:			
Interest	\$ 59,448	\$ 39,722	\$ 41,639
Income taxes	\$ 89,885	\$ 19,458	\$ 61,877

See notes to consolidated financial statements.

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LAZARD LLC

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS EQUITY

YEARS ENDED DECEMBER 31, 2002, 2003 AND 2004

(in thousands)

	Capital and Retained Earnings	Accumulated Other Comprehensive Income (Loss), Net of Tax	Total Members Equity
BALANCE January 1, 2002	\$ 741,759	\$ (37,062)	\$ 704,697
Comprehensive income (loss):			
Net income allocable to Members	297,447		297,447
Other comprehensive income net of tax:			
Currency translation adjustments		46,923	46,923
Minimum pension liability adjustments		(5,139)	(5,139)
Comprehensive income	297,447	41,784	339,231
Distributions and withdrawals to Members	(395,017)		(395,017)
BALANCE December 31, 2002	644,189	4,722	648,911
Comprehensive income (loss):			
Net income allocable to Members	250,383		250,383
Other comprehensive income net of tax:			
Currency translation adjustments		51,042	51,042
Minimum pension liability adjustments		(5,987)	(5,987)
Comprehensive income	250,383	45,055	295,438
Distributions and withdrawals to Members	(408,624)		(408,624)
BALANCE December 31, 2003	485,948	49,777	535,725
Comprehensive income (loss):			
Net income allocable to Members	246,974		246,974
Other comprehensive income net of tax:			
Currency translation adjustments		29,890	29,890
Minimum pension liability adjustments		(61,609)	(61,609)
Comprehensive income (loss)	246,974	(31,719)	215,255
Distributions and withdrawals to Members	(366,182)		(366,182)
BALANCE December 31, 2004	\$ 366,740	\$ 18,058	\$ 384,798



See notes to consolidated financial statements.

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LAZARD LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(dollars in thousands, unless otherwise noted)

1. ORGANIZATION

Lazard LLC (collectively referred to with its subsidiaries as the Company or Lazard Group) is a Delaware limited liability company. The Company is governed by its Amended and Restated Operating Agreement dated as of January 1, 2002 (the Operating Agreement).

The Company's principal activities are divided into three business segments:

Financial Advisory, which includes providing advice on mergers, acquisitions, restructurings and other financial matters,

Asset Management, which includes the management of equity and fixed income securities and merchant banking funds, and

Capital Markets and Other, which consists of equity, fixed income and convertibles sales and trading, broking, research and underwriting services, merchant banking fund management activities outside of France and specified non-operating assets and liabilities.

In addition, the Company records selected other activities in Corporate, including cash and marketable investments, certain long-term investments, and the Company's Paris-based Lazard Frères Banque SA (LFB). LFB is a registered bank regulated by the Banque de France. LFB's primary operations include commercial banking, the management of the treasury positions of the Company's Paris House through its money market desk and, to a lesser extent, credit activities relating to securing loans granted to clients of Lazard Frères Gestion (LFG) and custodial oversight over assets of various clients. In addition, LFB also operates many support functions of the Paris House. The Company also allocates outstanding indebtedness to Corporate.

The consolidated financial statements include the Company's principal operating subsidiaries, Lazard Frères & Co. LLC (LFNY), a New York limited liability company, along with its subsidiaries, including Lazard Asset Management LLC and its subsidiaries (collectively referred to as LAM); Lazard Frères SAS and Maison Lazard SAS, along with its subsidiaries, including LFB (collectively referred to as LFP), French limited liability companies; and Lazard & Co., Limited (LCL), through Lazard & Co., Holdings Limited, an English private limited company (LCH); together with their jointly-owned affiliates and subsidiaries.

See Note 18 for information regarding a contemplated initial public offering and separated businesses.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation The consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP). The Company's policy is to consolidate all majority-owned subsidiaries in which it has a controlling financial interest as well as variable interest entities where the Company is deemed to be the primary beneficiary (Note 3). All material intercompany transactions and balances have been eliminated.

The consolidated financial statements are presented in U.S. dollars. Many of the Company's non-U.S. subsidiaries have a functional currency (*i.e.*, the currency in which operational activities are primarily conducted) that is other than the U.S. dollar, generally the currency of the country in which such subsidiaries are domiciled. Such subsidiaries' assets and liabilities are translated into U.S. dollars.

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LAZARD LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(dollars in thousands, unless otherwise noted)

at year-end exchange rates, while revenue and expenses are translated at average exchange rates during the year. Adjustments that result from translating amounts from a subsidiary's functional currency are reported as a component of Members' equity. Foreign currency remeasurement gains and losses on transactions in non-functional currencies are included on the consolidated statements of income.

Use of Estimates The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions regarding certain trading inventory valuations, compensation liabilities and other matters that affect reported amounts of assets and liabilities at the dates of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ materially from those estimates.

Cash and Cash Equivalents The Company defines cash equivalents as short-term, highly liquid securities and cash deposits with original maturities of 90 days or less, other than those used for trading purposes.

Cash and Securities Segregated for Regulatory Purposes At December 31, 2003 and 2004, cash and securities with a market value of \$35,971 and \$27,200, respectively, were deposited in a special reserve account for the exclusive benefit of customers pursuant to Rule 15c3-3 under the Securities Exchange Act of 1934. The remaining balance at December 31, 2003 and 2004 of \$46,766 and \$55,431, respectively, relates to restricted cash deposits made by the Company to satisfy the requirements of various non-U.S. regulatory authorities.

Marketable and Long-Term Investments Marketable investments and long-term investments consist principally of investments in exchange traded funds, merchant banking and alternative investment funds, and other privately managed investments. These investments are carried at fair value on the consolidated statements of financial condition, with unrealized gains and losses reflected net on the consolidated statements of income. Where applicable, the fair value of a publicly traded investment is determined by quoted market prices. Most of the Company's investments included in long-term investments, however, are not publicly traded and, as a result, are valued based upon management's best estimate. The fair value of such investments is based upon an analysis of the investee's financial results, condition, cash flows and prospects. The carrying value of such investments is adjusted when changes in the underlying fair values are readily ascertainable, generally as evidenced by third party transactions or transactions that directly affect the value of such investments. The Company's investments in partnership interests, including general partnership and limited partnership interests in real estate funds, are recorded at fair value based on changes in the fair value of the partnerships' underlying net assets. Because of the inherent uncertainty in the valuation of investments that are not readily marketable, estimated values may differ significantly from the values that would have been reported had a ready market for such investments existed.

The Company's gross non-trading investment gains and (losses) of \$52,465 and \$(26,669), \$23,948 and \$(5,736), and \$39,808 and \$(7,840) for the years ended December 31, 2002, 2003 and 2004, respectively, are included in investment gains (losses), non-trading-net on the consolidated statements of income.

Securities Purchased Under Agreements to Resell and Securities Sold Under Agreements to Repurchase Securities purchased under agreements to resell and securities sold under agreements to repurchase are treated as collateralized financing transactions. The agreements provide

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(dollars in thousands, unless otherwise noted)

that the transferor will receive substantially the same securities in return at the maturity of the agreement and the transferor will obtain from the transferee sufficient cash or collateral to purchase such securities during the term of the agreement. These securities are carried at the amounts at which they will be subsequently resold or repurchased plus accrued interest. The Company's policy is to take possession of securities purchased under agreements to resell. As these transactions are short-term in nature, their carrying amounts are a reasonable estimate of fair value.

Securities sold under agreements to repurchase and securities purchased under agreements to resell with the same counterparty are reported net by the counterparty in accordance with Financial Interpretation No. (FIN) 41, *Offsetting of Amounts Related to Certain Repurchase and Reverse Repurchase Agreements*.

Securities Owned and Securities Sold, Not Yet Purchased Securities owned and securities sold, not yet purchased, are stated at quoted market values with realized and unrealized trading and investment gains and losses reflected in trading gains and losses net on the consolidated statements of income. Securities transactions and the related revenue and expenses are recorded on a trade date basis.

Swaps and Other Contractual Agreements A derivative is typically defined as an instrument whose value is derived from an underlying instrument or index, such as a future, forward, swap, or option contract, or other financial instrument with similar characteristics. Derivative contracts often involve future commitments to exchange interest payment streams or currencies based on a notional or contractual amount (*i.e.*, interest rate swaps or currency forwards) or to purchase or sell other financial instruments at specified terms on a specified date (*i.e.*, options to buy or sell securities or currencies).

Derivatives are reported separately as assets and liabilities unless a legal right of set-off exists under a master netting agreement enforceable by law. Balances related to the fair value of trading and non-trading derivative transactions are included in swaps and other contractual agreements on the consolidated statements of financial condition. There are no non-trading derivative transactions to which hedge accounting under Statement of Financial Accounting Standards (SFAS) No. 133, *Accounting for Derivative Instruments and Hedging Activities*, is applied, and, as such, the related gains and losses are reported in the consolidated statements of income.

The Company periodically enters into transactions principally for the purchase or sale of government and agency securities with customers that do not settle during the normal settlement cycle, generally three business days (extended settlement or delayed delivery transactions). Accordingly, such delayed delivery transactions are treated in a manner consistent with forward contracts and are recorded on the consolidated statement of financial condition on a settlement date basis with the related gains and losses in value between the trade and settlement date reported as a component of trading gains and losses net on the consolidated statements of income.

Securities Borrowed and Securities Loaned Securities borrowed and securities loaned are recorded at the amount of cash collateral advanced or received. Securities borrowed transactions facilitate the settlement process and require the Company to deposit cash or other collateral with the lender. With respect to securities loaned, the Company receives collateral in the form of cash or other collateral. The amount of collateral required to be deposited for securities borrowed, or received for

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(dollars in thousands, unless otherwise noted)

securities loaned, is an amount generally in excess of the market value of the applicable securities borrowed or loaned. The Company monitors the market value of securities borrowed and loaned, with additional collateral obtained, or excess collateral recalled, when deemed appropriate. As the majority of such financing activities are short-term in nature, the carrying value of securities borrowed and securities loaned approximates fair value. Interest related to securities loaned and securities borrowed is included in interest income and interest expense, respectively, on the consolidated statements of income.

Collateral As described above, the Company accepts and pledges collateral in secured financing and securities borrowing and lending transactions. Agreements covering these transactions may permit the secured party to sell or repledge the collateral. Collateral accepted under reverse repurchase agreements, securities lending agreements and margin loans are used to cover short positions, to enter into secured financing transactions and to satisfy reserve requirements under SEC Rule 15c3-3. At December 31, 2003 and 2004, the market value of collateral accepted under reverse repurchase agreements, in securities borrowed transactions and for customer margin loans was \$985,669 and \$995,525, respectively, of which \$688,877 and \$747,056 at December 31, 2003 and 2004, respectively, was sold or repledged.

Customer Transactions Customer securities transactions are recorded on a settlement date basis with the related commissions recorded on a trade date basis and included in commissions on the consolidated statements of income. Receivables from and payables to customers include amounts due on cash and margin transactions. Securities owned by customers, including those that collateralize margin or other similar transactions, are not reflected on the consolidated statements of financial condition. Receivables from and payables to customers are short-term in nature, and accordingly, their carrying amount is a reasonable estimate of fair value.

Receivables net Receivables are stated net of an allowance for doubtful accounts of approximately \$19,960 and \$16,444 at December 31, 2003 and 2004, respectively. The estimate is derived by management of the Company by utilizing past client transaction history and an assessment of the client's creditworthiness. The Company recorded bad debt expense of approximately \$13,245, \$3,391 and \$4,093 for the years ended December 31, 2002, 2003 and 2004, respectively. The Company recorded recoveries, charge-offs and other adjustments to the allowance for doubtful accounts of approximately \$616, \$(4,724) and \$(7,609) for the years ended December 31, 2002, 2003 and 2004, respectively.

Property net At December 31, 2003 and 2004 property-net consists of the following:

	December 31,	
	2003	2004
Buildings	\$ 159,302	\$ 171,821

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Leasehold improvements	130,161	111,658
Furniture and equipment	40,206	67,283
	<u> </u>	<u> </u>
Total	329,669	350,762
Less Accumulated depreciation and amortization	(137,193)	(151,309)
	<u> </u>	<u> </u>
Property-net	\$ 192,476	\$ 199,453
	<u> </u>	<u> </u>

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Buildings, leasehold improvements, and furniture and equipment are stated at cost, or in the case of buildings under capital leases, the present value of the future minimum lease payments, less accumulated depreciation and amortization. Buildings represent amounts recorded pursuant to capital leases (Note 11), with the related obligations recorded as capital lease obligations. Such buildings are amortized on a straight-line basis over the estimated useful lives of the assets, which approximate 33 years. Leasehold improvements are capitalized and are amortized over the lesser of the economic useful life of the improvement or the term of the lease. Depreciation of furniture and equipment is determined using estimated useful lives, generally between two to five years. Amortization expense on buildings and leasehold improvements of \$7,991, \$9,147 and \$11,972 for the years ended December 31, 2002, 2003 and 2004, respectively, is included in premises and occupancy costs on the consolidated statements of income. Depreciation expense on furniture and equipment of \$4,165, \$4,847 and \$4,966 for the years ended December 31, 2002, 2003 and 2004, respectively, is included in equipment costs on the consolidated statements of income. Repair and maintenance costs are expensed as incurred.

Goodwill In accordance with SFAS No. 142, *Goodwill and Other Intangible Assets*, goodwill and intangible assets with indefinite lives are no longer amortized, but instead are tested for impairment annually or more frequently if circumstances indicate impairment may have occurred. In connection with the implementation of SFAS No. 142, the Company was required to assess goodwill for impairment. It was determined that there was no impairment of goodwill at January 1, 2002. The Company has selected December 31 as the date to perform the annual impairment test. At December 31, 2002, 2003 and 2004, the Company compared the fair value of the reporting unit with its carrying amount including goodwill and determined that the fair value exceeded its carrying value. Therefore, the Company determined that no impairment existed. Goodwill reflected on the consolidated statements of financial condition relates to the Financial Advisory business segment.

Minority Interest Minority interest recorded on the consolidated financial statements as of December 31, 2002 and for the year then ended relates primarily to minority interests in various LAM-related general partnership interests. The Company consolidates various LAM related general partnership interests that it controls but does not wholly own. As a result, the Company includes on its consolidated statements of income all of the general partnerships net revenue with an appropriate minority interest expense.

As of December 31, 2003 and 2004 and for the years then ended, minority interest principally relates to minority interests in (i) various LAM-related general partnership interests, (ii) the Company's business in Italy (Note 5) and (iii) LAM (Note 6).

Revenue Recognition

Investment Banking and Other Advisory Fees Fees for mergers and acquisitions advisory services and financial restructuring advisory services are recorded when billed, which is generally the date the related transactions are consummated. Transaction related expenses, which are directly related to such transactions and billable to clients, are deferred to match revenue recognition. Client reimbursements of expenses are presented net in investment banking and other advisory fees on the Company's consolidated statements of income. The Company also includes receivables related to client reimbursement of expenses in fees

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receivable on the consolidated statements of financial condition. The amounts of expenses reimbursed by clients for the years ended December 31, 2002, 2003 and 2004 are \$9,655, \$11,041 and \$11,583, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(dollars in thousands, unless otherwise noted)

Money Management Fees Money management fees are derived from fees for investment management and advisory services provided to institutional and private clients. Revenue is recorded on an accrual basis primarily based on the contractual investment advisory fee applied to the level of client assets under management. Fees vary with the type of assets managed, with higher fees earned on actively managed equity assets, alternative investment (such as hedge funds) and merchant banking products, and lower fees earned on fixed income and money market products. The Company also earns performance-based incentive fees on some investment products, such as hedge funds and merchant banking funds. Incentive fees on hedge funds generally are recorded at the end of the year and typically are calculated based on a specified percentage of a fund's net appreciation during the year. Incentive fees on hedge funds generally are subject to loss carry-forward provisions in which losses incurred by the funds in any year are applied against future period net appreciation before any incentive fees can be earned. The Company makes merchant banking investments with its own capital, usually alongside capital of qualified institutional and individual investors. These activities typically are organized in funds that make investments in private or public companies, generally through privately negotiated transactions. With respect to merchant banking funds, the Company also may earn incentive fees in accordance with the terms of the funds' respective agreements. These fees are in the form of a carried interest and are recognized when realized or unrealized gains relating to the underlying investments of the fund exceed a specified threshold. Accordingly, revenue from merchant banking incentive fees are recorded when the return on the underlying investments have exceeded certain contractually established thresholds. Any future underperformance by the merchant banking funds would reduce the Company's incentive fee revenue, money management fees (since revenue is based on the value of assets under management) and the value of the Company's merchant banking investments. Receivables relating to money management fees are reported in fees receivable on the consolidated statements of financial condition. There are no unrecorded merchant banking incentive fees as of December 31, 2004.

Commissions Commissions charged for executing customer transactions are accrued on a trade date basis and are included in current period earnings.

Trading Gains and Losses net Changes in the fair value (*i.e.*, unrealized gains and losses) of securities owned and securities sold, not yet purchased are recognized in trading gains and losses net in the current period. Realized gains and losses and any related interest amounts are included in trading gains and losses net and interest income and interest expense, respectively, depending on the nature of the instrument. Trading gains and losses are recorded on a trade date basis. Dividend income and expense incurred on trading long and short securities is reported net in trading gains and losses net.

Underwriting Underwriting revenue is accrued on a trade date basis and represents fees earned, net of estimated transaction related expenses, on primary offerings of debt and equity securities.

Soft Dollar Arrangements The Company's Asset Management business obtains research and other services through soft dollar arrangements. Consistent with the soft dollar safe harbor established by Section 28(e) of the Securities Exchange Act of 1934, as amended, the Asset Management business does not have any contractual obligation or arrangement requiring it to pay for research and other services obtained through soft dollar arrangements with

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(dollars in thousands, unless otherwise noted)

brokers. Instead, the broker is obligated to pay for the services. Consequently, the Company does not incur any liability and does not accrue any expenses in connection with any research or other services obtained by the Asset Management business pursuant to such soft dollar arrangements. If the use of soft dollars is limited or prohibited in the future by regulation, we may have to bear the costs of research and other services.

Income Taxes The Company accounts for income taxes in accordance with SFAS No. 109, *Accounting for Income Taxes*, which requires the recognition of tax benefits or expenses on the temporary differences between the financial reporting and tax bases of assets and liabilities. The Company operates in the U.S. as a limited liability company that is treated as a partnership for U.S. federal income tax purposes. Accordingly, the Company's income is not subject to U.S. federal income taxes. Taxes related to income earned by partnerships represent obligations of the individual partners. Outside the U.S. the Company principally operates through subsidiary corporations and is subject to local income taxes. Income taxes shown on the Company's historical consolidated statements of income are attributable to taxes incurred in non-U.S. entities and to New York City Unincorporated Business Tax (UBT) attributable to the Company's operations apportioned to New York City.

Net Income Allocable to Members Payment for services rendered by the Company's managing directors, as a result of the Company operating as a limited liability company, historically has been accounted for as distributions from members' capital, or in some cases as minority interest, rather than as compensation and benefits expense. As a result, the Company's operating income historically has not reflected payments for services rendered by its managing directors.

Reclassifications Certain prior year amounts have been reclassified to conform to the manner of presentation in the current year.

3. RECENTLY ISSUED ACCOUNTING STANDARDS

Effective January 1, 2003, the Company adopted FIN 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others - an Interpretation of FASB Statements No. 5, 57, and 107 and Rescission of FASB Interpretation No. 34*. FIN 45 requires certain disclosures to be made by a guarantor about its obligations under certain guarantees issued. It also requires a guarantor to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The adoption of FIN 45 did not have a material impact on the Company's consolidated financial position or results of operations.

In December 2003, the Financial Accounting Standards Board (FASB) issued FIN 46R, *Consolidation of Certain Variable Interest Entities - an interpretation of ARB No. 51*, that further clarifies FIN 46 which was issued on January 17, 2003. FIN 46R clarifies when an entity should consolidate a Variable Interest Entity (VIE), more commonly referred to as a special purpose entity (SPE). A VIE is an entity in which equity investors do not have the characteristics of a controlling financial interest or do

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not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties, and may include many types of SPEs. FIN 46R requires that an entity shall consolidate a VIE if that entity has a variable interest that will absorb a majority of the VIE's expected losses if they occur, receive a majority of the VIE's expected residual returns if they occur, or both. FIN 46R does not apply to certain qualifying SPEs (QSPEs), the accounting for which is governed by Statement of Financial Accounting Standards (SFAS) No. 140, *Accounting for Transfers and Servicing of Financing Assets and Extinguishments of Liabilities*. FIN 46R

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(dollars in thousands, unless otherwise noted)

is effective for newly created VIEs beginning January 1, 2004 and for existing VIEs as of the first reporting period beginning after March 15, 2004.

Effective January 1, 2004, the Company adopted FIN 46R for VIEs created after December 31, 2003 and for VIEs in which the Company obtained an interest after December 31, 2003. The Company adopted FIN 46R in the second quarter of 2004 for VIEs in which it holds a variable interest that it acquired on or before December 31, 2003.

The Company is involved with various entities in the normal course of business that are VIEs and hold variable interests in such VIEs. Transactions associated with these entities primarily include investment management, real estate and private equity investments. Those VIEs for which the Company is the primary beneficiary were consolidated in the second quarter of 2004 in accordance with FIN 46R. Those VIEs include company sponsored venture capital investment vehicles established in connection with the Company's compensation plans (Note 7).

The Company's merchant banking activities consist of making private equity, venture capital and real estate investments on behalf of customers. At December 31, 2003 and 2004, in connection with its merchant banking activities, the net assets of entities for which the Company has a significant variable interest was approximately \$148,398 and \$96,733, respectively. The Company's variable interests associated with these entities, consisting of investments, carried interest and management fees, were approximately \$24,449 and \$23,983 at such dates which represent the maximum exposure to loss, only if total assets declined 100% at December 31, 2003 and 2004. At December 31, 2004, the consolidated statement of financial condition included \$21,013 of incremental assets relating to the consolidation of VIEs for such merchant banking activities in which the Company was deemed to be the primary beneficiary.

In connection with its Capital Markets and Other segment activities, the Company holds a significant variable interest in an entity with assets of \$3,600 and liabilities of \$15,800 at December 31, 2003 and with assets of \$2,000 and liabilities of \$14,600 at December 31, 2004. The Company's variable interests associated with this entity, primarily paid-in-kind notes, were approximately \$15,800 and \$14,600 at December 31, 2003 and 2004, respectively. As the noteholders have sole recourse only to the underlying assets, the Company has no exposure to loss at December 31, 2003 and 2004. Also, as the Company is not the primary beneficiary, the entity has not been consolidated.

In connection with its Asset Management business, the Company was the asset manager and held a significant variable interest in a hedge fund, where the aggregate net assets at December 31, 2003 was approximately \$8,222. The Company's maximum exposure to loss at December 31, 2003 was \$7,019. This fund was liquidated as of December 31, 2004.

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In April 2003, the FASB issued SFAS No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*. SFAS No. 149 clarifies the circumstances under which a contract with an initial investment meets the characteristics of a derivative under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*. SFAS No. 149 also amended other existing pronouncements to result in more consistent reporting of derivative contracts. This pronouncement is effective for all contracts entered into or modified after June 30, 2003. The Company adopted SFAS No. 149 as required, with no material impact on the Company's consolidated financial statements.

In May 2003, the FASB issued the SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity*. SFAS No. 150 requires that the issuer classify a

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financial instrument that is within its scope as a liability. The initial recognition of SFAS No. 150 applies to financial instruments entered into or modified after May 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The Company's classification of mandatorily redeemable preferred stock (Note 10) is in accordance with SFAS No. 150.

In December 2003, the Company adopted the provisions of SFAS No. 132R, *Employers' Disclosure about Pensions and Other Post-Retirement Benefits*. The Statement requires additional disclosures to those in the original SFAS 132 about assets, obligations, cash flows and net periodic benefit costs of defined benefit pension plans and other defined benefit post-retirement plans.

In March 2004, the EITF reached a final consensus on Issue 03-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*. EITF 03-1 requires that when the fair value of an investment security is less than its carrying value, an impairment exists for which the determination must be made as to whether the impairment is other-than-temporary. The EITF 03-1 impairment model applies to all investment securities accounted for under SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities* and to investment securities accounted for under the cost method to the extent an impairment indicator exists. Under the guidance, the determination of whether an impairment is other-than-temporary and therefore would result in a recognized loss depends on market conditions and management's intent and ability to hold the securities with unrealized losses. Subsequent to its issuance, the FASB deferred certain provisions of EITF 03-1; however, the disclosure requirements remain effective. The adoption of EITF 03-1 did not have an impact on the Company's consolidated financial position or results of operations since the Company does not have any securities accounted for under SFAS No. 115.

4. TRADING ACTIVITIES AND RELATED RISKS

The Company's trading activities include providing securities brokerage and underwriting services. Trading activities are primarily related to proprietary positions taken by the Company based on expectations of future market movements and conditions as well as to facilitate client order flow.

Market Risk Market risk is the potential change in an instrument's value caused by fluctuations in interest and currency exchange rates, equity prices, or other risks. The level of market risk is influenced by the volatility and the liquidity in the markets in which financial instruments are traded.

The Company seeks to mitigate market risk associated with trading inventories by employing hedging strategies that correlate rate, price, and spread movements of trading inventories and related financing and hedging activities. The Company uses a combination of cash instruments and derivatives to hedge its market exposure. The following discussion describes the types of market risk faced by the Company.

Interest Rate Risk Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments, primarily the Company's securities owned and securities sold but not yet purchased. The Company typically uses U.S. Treasury securities to manage interest rate risk relating to interest bearing deposits of non-U.S. banking operations as well as certain non-U.S. securities owned. The Company often hedges its interest rate risk by using interest rate swaps and forward rate agreements. Interest rate swaps generally involve the exchange of fixed and floating interest payment obligations without the exchange of the underlying principal amounts. Forward rate agreements are contracts under which two counterparties agree on the interest to be paid on a notional deposit of a specified maturity at a specific future settlement date with no exchange of principal.

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Currency Risk Currency risk arises from the possibility that fluctuations in foreign exchange rates will impact the value of financial instruments. The Company uses currency forwards and options to manage currency risk. Exchange rate contracts include cross-currency swaps and foreign exchange forwards. Currency swaps are agreements to exchange future payments in one currency for payments in another currency. These agreements are used to transform the assets or liabilities denominated in different currencies. Foreign exchange forwards are contracts for delayed delivery of currency at a specified future date.

Equity Price Risk Equity price risk arises from the possibility that equity security prices will fluctuate, affecting the value of equity securities. The Company is subject to equity price risk primarily in securities owned and securities sold, not yet purchased, as well as for equity swap contracts entered into for trading purposes.

Credit Risk The Company is exposed to the risk of loss if an issuer or counterparty fails to perform its obligations under contractual terms and the collateral held, if any, is insufficient or worthless. Both cash instruments and derivatives expose the Company to this type of credit risk. The Company has established policies and procedures for mitigating credit risk on principal transactions, including establishing and reviewing limits for credit exposure, maintaining collateral and continually assessing the creditworthiness of counterparties.

In the normal course of business, the Company executes, settles and finances various customer securities transactions. Execution of securities transactions includes the purchase and sale of securities by the Company that exposes the Company to default risk arising from the potential that customers or counterparties may fail to satisfy their obligations. In these situations, the Company may be required to purchase or sell financial instruments at unfavorable market prices to satisfy obligations to other customers or counterparties. The Company seeks to control the risks associated with its customer margin activities by requiring customers to maintain collateral in compliance with regulatory and internal guidelines.

Liabilities to other brokers and dealers related to unsettled transactions (*i.e.*, securities failed-to-receive) are recorded at the amount for which the securities were acquired and are paid upon receipt of the securities from other brokers or dealers. In the case of aged securities failed-to-receive, the Company may purchase the underlying security in the market and seek reimbursement for losses from the counterparty.

Concentrations of Credit Risk The Company's exposure to credit risk associated with its trading and other activities is measured on the individual counterparty basis, as well as by groups of counterparties that share similar attributes. To reduce the potential for risk concentration, credit limits are established and monitored in light of changing counterparty and market conditions.

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At December 31, 2003 and 2004, the Company's most significant concentration of credit risk was with the U.S. Government and its agencies. This concentration consists of both direct and indirect exposures. Direct exposure primarily results from securities owned that are issued by the U.S. Government and its agencies. The Company's indirect exposure results from maintaining U.S. Government and agency securities as collateral for resale agreements and securities borrowed transactions. The Company's direct exposure on these transactions is with the counterparty; thus, the Company has credit exposure to the U.S. Government and its agencies only in the event of the counterparty's default.

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Trading and Non-Trading Derivatives The Company enters into forward foreign exchange contracts, interest rate swaps and other trading contracts for trading purposes and non-trading derivative contracts, including forward foreign exchange rate contracts, interest rate swaps, cross- currency interest rate swaps and other derivative contracts to hedge exposures to interest rate and currency fluctuations. These trading and non-trading contracts are recorded at their fair values on the statements of financial condition. The related gains and losses on trading contracts are included in trading gains and losses net on the consolidated statements of income. The Company's hedging strategy is an integral part of its trading strategy, and therefore the related gains and losses on the Company's hedging activities also are recorded in trading gains and losses net on the consolidated statements of income.

The table below presents the fair values of the Company's trading and non-trading derivatives as of December 31, 2003 and 2004:

	December 31,	
	2003	2004
Assets		
Trading Derivatives:		
Interest rate swap contracts	\$ 695	\$ 377
Exchange rate contracts	5	289
	<u> </u>	<u> </u>
Total	\$ 700	\$ 666
	<u> </u>	<u> </u>
Liabilities		
Trading Derivatives:		
Interest rate swap contracts	\$	\$ 1,124
Exchange rate contracts		291
	<u> </u>	<u> </u>
Total trading derivatives		1,415
	<u> </u>	<u> </u>
Non-Trading Derivatives:		
Interest rate swap contracts	3,222	3,204
	<u> </u>	<u> </u>
Total	\$ 3,222	\$ 4,619
	<u> </u>	<u> </u>

Off-Balance Sheet Risks The Company may be exposed to a risk of loss not reflected on the consolidated financial statements for securities sold, not yet purchased, should the value of such securities rise.

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For transactions in which the Company extends credit to others, the Company seeks to control the risks associated with these activities by requiring the counterparty to maintain margin collateral in compliance with various regulatory and internal guidelines. Counterparties include customers who are generally institutional investors and brokers and dealers that are members of major exchanges. The Company monitors required margin levels daily and, pursuant to such guidelines, requests counterparties to deposit additional collateral or reduce securities positions when necessary.

It is the Company's policy to take possession of securities purchased under agreements to resell. The Company monitors the market value of the assets acquired to ensure their adequacy as compared to the amount at which the securities will be subsequently resold, as specified in the respective agreements. The agreements provide that, where appropriate, the Company may require the delivery of additional collateral.

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In connection with securities sold under agreements to repurchase, the Company monitors the market value of assets delivered to ensure that the collateral value is not excessive as compared to the amount at which the securities will be subsequently repurchased.

5. STRATEGIC ALLIANCE IN ITALY

In September 2002, the Company and Banca Intesa S.p.A. (Intesa) announced their agreement to form a strategic alliance (the Strategic Alliance). Pursuant to the terms of the Strategic Alliance, effective January 2003, Intesa became a 40% partner in the Company's business in Italy (Lazard Italy), and the Company and Intesa agreed to work to grow the investment banking business in Italy. Lazard Italy is consolidated in the consolidated financial statements, with Intesa's 40% share recorded as minority interest.

The initial term of the Strategic Alliance ends December 31, 2007, and, unless terminated by either of the parties in connection with the end of any term, will automatically extend for additional five-year terms. Both the Company and Intesa have the right to terminate the Strategic Alliance arrangement at the end of each five-year term or at any other time should certain defined events occur, such as changes in control involving either party, transfers of either party's interest in Lazard Italy or the removal of the chairman of that business under certain circumstances.

In connection with the Strategic Alliance, Intesa became an economic partner of the Company through an aggregate financial investment of \$300,000. The investments made by Intesa consist of (i) a March 2003 purchase from a subsidiary of the Company of a \$150,000 Subordinated Convertible Promissory Note (the Subordinated Convertible Note), convertible into a contractual right that entitles the holder to receive payments that would be equivalent to those that a holder of a three percent equity goodwill interest (see Note 12) in the Company would be entitled to in certain fundamental events and (ii) \$150,000 invested in Lazard Italy in June 2003, comprised of an investment of euro then equal to \$100,000 for 40% of the capital stock in Lazard Italy and the purchase of a \$50,000 Subordinated Promissory Note issued by Lazard Italy (the Subordinated Promissory Note). The Subordinated Promissory Note has a scheduled maturity date in the year 2078 (subject to extension), with interest payable annually at the rate of 3.0% per annum. The Subordinated Convertible Note, which is guaranteed by the Company, has a scheduled maturity date in the year 2018 and has interest payable annually at a variable interest rate of not less than 3%, and not more than 3.25%, per annum (with such annual interest rate for the years ending March 2004 and March 2005 being 3.0%). Under certain circumstances, including a termination of the Strategic Alliance, the Subordinated Convertible Note and the Subordinated Promissory Note could be redeemed earlier than its stated maturity, and in connection with a termination of the Strategic Alliance, the Company has the obligation to repurchase Intesa's capital stock of Lazard Italy and the Subordinated Promissory Note and may be obligated to redeem the Subordinated Convertible Note at face value. The proceeds from the sale of capital stock in Lazard Italy exceeded the underlying book value of the net assets purchased by Intesa by approximately \$55,000. This amount has been deferred and included in other liabilities on the consolidated statement of financial condition as Lazard Italy could be required to repurchase such amount of capital stock held by Intesa in the event of a termination of the Strategic Alliance.

The Company has provided financial advisory services to Intesa.

6. FORMATION OF LAM

On January 1, 2003, in connection with the formation of the Company's LAM subsidiary, certain Members of the Company (the managing directors of LAM) who provide services to LAM exchanged

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(dollars in thousands, unless otherwise noted)

their Members' equity in the Company in the amount of \$27,483 for membership interests in LAM of a like amount. As a result, these managing directors ceased being Members of the Company and became exclusively Members of LAM. Following the formation of LAM, the Company continues to control, and thereby consolidates, the operations of LAM with the membership interest held by the LAM managing directors included in minority interest on the consolidated statement of financial condition.

Pursuant to the formation of LAM, the LAM managing directors also were granted equity units in LAM. In addition, certain other key LAM employees were granted equity units in LAM. The LAM equity units entitle holders to payments only in connection with selected fundamental transactions affecting the Company or LAM, including a dissolution or sale of all or substantially all of the assets of the Company or LAM, a merger of or sale of all of the interests in LAM whereby the Company ceases to own a majority of, or have the right to appoint a majority of the board of directors of, LAM or a non-ordinary course sale of assets by LAM that exceeds \$50,000 in value. As a general matter, in connection with a fundamental transaction that triggers the LAM equity units, the holders of the LAM equity units would be entitled in the aggregate to 21.75% of the net proceeds or imputed valuation of LAM in such a transaction after deductions for payment of creditors of LAM and the return of LAM capital, with the remaining 78.25% being retained by the Company. The LAM equity units are not entitled to share in the operating results of LAM. A separate class of interests in LAM is entitled to the ordinary profit and losses of LAM, all of which is owned by the Company. Accordingly, in the absence of a fundamental transaction that triggers the LAM equity units, all of LAM's net income is allocable to the Company. The equity units granted to LAM managing directors are a part of the LAM managing directors' membership interest in LAM, and, therefore, all transactions related to the equity units are treated as equity transactions among members. The equity units granted to LAM employees are considered to be compensation for financial accounting purposes. As a fundamental transaction has not yet been considered probable of occurrence, no compensation cost has been recognized to date. The Company has no current intention to cause or otherwise trigger a fundamental transaction that would give rise to payment obligations to the holders of interests in LAM.

Commencing in 2003, payments for services rendered by LAM managing directors and other key LAM employees were accounted for as minority interest expense on the consolidated statement of income. The substantial portion of such payments related to compensation of LAM managing directors, which, in prior years, had been accounted for as distributions to Members and, therefore, was not reported in prior years' consolidated statements of income. Such amount was approximately \$89,000 for the year ended December 31, 2002. The remainder of such payments, which related to compensation of employee members of LAM, was recorded as employee compensation and benefits expense in prior years' consolidated statements of income.

On and after January 1, 2006, the board of directors of LAM (a majority of which are appointed by the Company) may, in its discretion, grant LAM equity interests that include profit rights to managing directors of, and other persons providing services to, LAM, as a portion of their ongoing compensation. If granted, these equity interests will be subject to specified vesting conditions with 50% of the equity interests vesting on the second anniversary of the date of issuance and the remaining 50% of the equity interests vesting on the third anniversary of the date of issuance.

7. EMPLOYEE BENEFIT PLANS

The Company, through its subsidiaries, provides certain retirement and other post-employment benefits to certain of its employees through defined contribution and defined benefit pension plans and other post-retirement benefit plans. The retirement and post-employment benefit plans costs incurred

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for the years ended December 31, 2002, 2003 and 2004 are included in employee compensation and benefits on the consolidated statements of income. The Company has the right to amend or terminate its benefit plans at any time subject to the terms of such plans. Expenses incurred related to the defined benefit pension plans amounted to \$12,011, \$20,319 and \$21,609 for the years ended December 31, 2002, 2003 and 2004, respectively. Expenses (benefits) incurred related to the defined benefit pension plan supplement amounted to \$355, \$418 and \$(60) for the years ended December 31, 2002, 2003 and 2004, respectively. Expenses (benefits) incurred related to the post-retirement health care plans amounted to \$3,848, \$5,007 and \$(1,444) for the years ended December 31, 2002, 2003 and 2004, respectively.

The Company also has an incentive compensation plan (the Plan) pursuant to which amounts are invested in a Company sponsored investment vehicle for certain key employees. The Company records expenses for the Plan on the dates on which capital calls from such vehicle are funded. Net costs related to the Plan for the years ended December 31, 2002, 2003 and 2004 amounted to approximately \$2,000, \$2,000 and \$100, respectively, and are included in employee compensation and benefits on the consolidated statements of income. At December 31, 2004, the Company had remaining commitments of approximately \$9,400 under the Plan.

LFNY Pension and Post-Retirement Benefits LFNY has two non-contributory defined benefit pension plans the Employees Pension Plan (EPP), which provides benefits to substantially all employees based on certain averages of compensation, as defined, and the Employees Pension Plan Supplement (EPPS), which provides benefits to certain employees whose compensation exceeds a defined threshold. It is LFNY's policy to fund EPP to meet the minimum funding standard as prescribed by the Employee Retirement Income Security Act of 1974 (ERISA). At December 31, 2003 and 2004, the pension plan assets were invested in a portfolio consisting primarily of equity and fixed-income mutual fund investments managed by LAM. EPPS is a non-qualified supplemental plan and was unfunded at December 31, 2004. LFNY utilizes the projected unit credit actuarial method for financial reporting purposes.

LFNY also has a non-funded contributory post-retirement medical plan (the Medical Plan) covering substantially all of its employees. The Medical Plan pays stated percentages of most necessary medical expenses incurred by retirees, after subtracting payments by Medicare or other providers and after stated deductibles have been met. Participants become eligible for benefits if they retire from the Company after reaching age 62 and completing 10 years of service.

LFNY Defined Contribution Plan LFNY sponsors a defined contribution plan, which covers substantially all of its employees. The Company historically has not matched employee contributions to the plan. On December 14, 2004, the plan was amended to provide for certain matching contributions by the Company, as described below. LFNY also sponsors a profit sharing plan, which covers eligible Managing Directors of LFNY who are also Members of the Company. LFNY makes contributions to the profit sharing plan from funds that would have otherwise been distributable profits. As such, contributions to the profit sharing plan are included in distributions and withdrawals to Members on the consolidated statement of changes in Members' equity.

Amendments to LFNY Employee Benefit Plans On December 14, 2004, LFNY announced the following amendments to its defined benefit pension plan, defined benefit pension plan supplement,

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(dollars in thousands, unless otherwise noted)

defined contribution plan and post-retirement medical plan, all of which will be implemented subsequent to December 31, 2004:

LFNY Defined Benefit Pension Plan and Pension Plan Supplement Effective as of January 31, 2005, the LFNY Employees Pension Plan and the Employees Pension Plan Supplement were amended to cease future benefit accruals and future participation. As a result of such amendment, active participants will continue to receive credit for service completed after January 31, 2005 for purposes of vesting; however, future service will not count for purposes of future benefit accruals under the plans. Vested benefits for active participants as of January 31, 2005 will be retained.

LFNY Defined Contribution Plan Effective January 1, 2005, the LFNY Defined Contribution Plan (the 401(k) Plan) was amended to implement an employer match to participant pre-tax contributions. LFNY will match 100% of pre-tax contributions, excluding catch-up contributions, to the 401(k) Plan up to 4% of eligible compensation. Participants will be 100% vested in all employer-matching contributions after three years of service. Any service accrued prior to January 1, 2005 will count toward this three-year vesting requirement.

LFNY Post-Retirement Medical Plan Effective December 31, 2005, post-retirement health care benefits will no longer be offered to those Members and employees hired on or after the effective date and for those Members and employees hired before the effective date who attain the age of 40 after December 31, 2005. In addition, effective January 1, 2006, the cost sharing policy will change for those who qualify for the benefit.

LCH Pension and Post-Retirement Benefits LCH also has two defined benefit pension plans and, in addition, makes contributions to personal pension plans for certain individuals. Each of the defined benefit plans has had a valuation by independent actuaries at December 31, 2003 and 2004, using the projected unit funding method.

LCH has a non-funded post-retirement medical plan, which is provided, at LCH's discretion, to certain retired employees. The costs of private medical insurance are provided for these individuals, their spouses and eligible dependents.

Termination of LCH's Post-Retirement Medical Plan In April 2004, LCH announced a plan to terminate its Post-Retirement Medical Plan. As a result of such action, benefits available to eligible active employees and retirees will cease on February 28, 2007. In accordance with SFAS No. 106, *Employers Accounting for Post-Retirement Benefits Other Than Pensions*, the Company is recognizing the effect of such termination, which resulted in a reduction in the Company's accumulated post-retirement benefit obligation of approximately \$24,000, the effect of which reduced employee compensation and benefits expense by approximately \$4,500 for the year ended December 31, 2004 and is expected to reduce employee compensation and benefits expense by approximately \$9,000, \$9,000 and \$1,500 for the years ending December 31, 2005, 2006 and 2007, respectively.

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(dollars in thousands, unless otherwise noted)

The following table summarizes LFNY's and LCH's benefit obligations, the fair value of the assets and the funded status at December 31, 2003:

	Pension Plans	Pension Plan Supplement	Post-Retirement Medical Plans
Change in benefit obligation			
Benefit obligation at January 1, 2003	\$ 384,484	\$ 2,363	\$ 38,625
Service cost	14,692	246	2,233
Interest cost	22,295	121	2,324
Plan participants' contributions			
Amendments	1,723	(88)	
Actuarial gain	(3,955)	(23)	(620)
Benefits paid	(17,750)	(333)	(1,322)
Curtailment gain	(1,482)		
Foreign currency translation adjustment	39,662		2,613
	<u>439,669</u>	<u>2,286</u>	<u>43,853</u>
Benefit obligation at December 31, 2003	439,669	2,286	43,853
Change in plan assets			
Fair value of plan assets at January 1, 2003	294,598		
Actual return on plan assets	36,748		
Employer contribution	25,294	333	1,322
Plan participants' contributions			
Benefits paid	(17,750)	(333)	(1,322)
Foreign currency translation adjustment	32,494		
	<u>371,384</u>		
Fair value of plan assets at December 31, 2003	371,384		
Funded status	(68,285)	(2,286)	(43,853)
Unrecognized net transition (asset)/obligation	(115)		
Unrecognized net prior service cost	(2,185)	712	
Unrecognized net actuarial (gain)/loss	80,141	(423)	2,932
	<u>9,556</u>	<u>(1,997)</u>	<u>(40,921)</u>
Prepaid (accrued) benefit cost recognized on the consolidated statement of financial condition	\$ 9,556	\$ (1,997)	\$ (40,921)
Amounts recognized on the consolidated statement of financial condition consist of:			
Prepaid benefit cost (included in other assets)	\$ 11,857		
Accrued benefit liability (included in other liabilities)	(16,743)	\$ (1,997)	\$ (40,921)

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Accumulated other comprehensive loss	14,442		
Net amount recognized	\$ 9,556	\$ (1,997)	\$ (40,921)

Weighted-average assumptions used to determine benefit obligations at December 31, 2003:

Discount rate	5.6%	6.3%	5.8%
Rate of annual compensation increase	3.8% - 6.3%	5.5%	N/A

Weighted-average assumptions used to determine net periodic benefit cost for year ended December 31, 2003:

Discount rate	5.6%	6.5%	6.0%
Expected long-term return on plan assets	7.4%	N/A	N/A
Rate of annual compensation increase	3.8% - 6.3%	5.5%	N/A

As of December 31, 2003, the fair value of plan assets and the accumulated benefit obligation within the LFNY plan was \$31,178 and \$30,373, respectively, and the fair value of plan assets and the accumulated benefit obligation within the LCH plan was \$340,206 and \$346,767, respectively.

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LAZARD LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(dollars in thousands, unless otherwise noted)

The following table summarizes LFNY's and LCH's benefit obligations, the fair value of the assets and the funded status at December 31, 2004:

	Pension Plans	Pension Plan Supplement	Post-Retirement Medical Plans
Change in benefit obligation			
Benefit obligation at January 1, 2004	\$ 439,669	\$ 2,286	\$ 43,853
Service cost	16,143	341	1,926
Interest cost	24,911	138	1,088
Plan participants' contributions			46
Amendments	5,292	41	(15,556)
Actuarial loss	27,869	72	442
Benefits paid	(17,061)	(131)	(1,342)
Curtailment gain	(5,759)	(1,275)	
Foreign currency translation adjustment	34,373		1,974
	<u>525,437</u>	<u>1,472</u>	<u>32,431</u>
Benefit obligation at December 31, 2004			
Change in plan assets			
Fair value of plan assets at January 1, 2004	371,384		
Actual return on plan assets	33,951		
Employer contribution	13,024	131	1,296
Plan participants' contributions			46
Benefits paid	(17,061)	(131)	(1,342)
Foreign currency translation adjustment	29,361		
	<u>430,659</u>		
Fair value of plan assets at December 31, 2004			
Funded status	(94,778)	(1,472)	(32,431)
Unrecognized net prior service cost	(2,697)		(11,068)
Unrecognized net actuarial (gain)/loss	98,056	(334)	3,344
	<u>581</u>	<u>(1,806)</u>	<u>(40,155)</u>
Prepaid (accrued) benefit cost recognized on the consolidated statement of financial condition			
Amounts recognized on the consolidated statement of financial condition consist of:			
Prepaid benefit cost (included in other assets)	\$ 7,099		
Accrued benefit liability (included in other liabilities)	(82,568)	\$ (1,806)	\$ (40,155)
Accumulated other comprehensive loss	76,050		

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Net amount recognized	\$ 581	\$ (1,806)	\$ (40,155)
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Weighted-average assumptions used to determine benefit obligations at December 31, 2004:

Discount rate	5.4%	6.0%	5.0%
Rate of annual compensation increase	3.8% - 6.3%	5.5%	N/A

Weighted-average assumptions used to determine net periodic benefit cost for year ended December 31, 2004:

Discount rate	5.8%	6.3%	5.3%
Expected long-term return on plan assets	7.4%	N/A	N/A
Rate of annual compensation increase	3.8% - 6.3%	5.5%	N/A

As of December 31, 2004, the fair value of plan assets and the accumulated benefit obligation within the LFNY plan was \$34,919 and \$34,703, respectively, and the fair value of plan assets and the accumulated benefit obligation within the LCH plan was \$395,740 and \$478,308, respectively.

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(dollars in thousands, unless otherwise noted)

In selecting the expected long-term rate of return on plan assets, the Company considered the average rate of earnings expected on the funds invested or to be invested to provide for the benefits of the plan. The expected long-term rate of return on plan assets is based on expected returns on different asset classes held by the plan in light of prevailing economic conditions as well as historic returns. This included considering the trusts' asset allocation and the expected returns likely to be earned over the life of the plan. This basis is consistent with the prior year.

For measurement purposes, an 8.8% and 9.8% annual rate of increase in the per capita cost of covered health care benefits was assumed for the computation of the December 31, 2003 and 2004 benefit obligations, respectively. The rate was assumed to decrease gradually to 6.7% through 2006 and remain at that level thereafter.

The assumed cost of healthcare has an effect on the amounts reported for the firm's post-retirement plans. A 1% change in the assumed healthcare cost trend rate would have the following effects:

	1% Increase		1% Decrease	
	2003	2004	2003	2004
Cost	\$ 1,322	\$ 899	\$ (968)	\$ (652)
Obligation	10,586	1,176	(8,072)	(988)

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The following table summarizes the components of benefit costs, return on plan assets, benefits paid and contributions for the years ended December 31, 2002, 2003 and 2004 for LFNY and LCH:

	<u>Pension Plans</u>	<u>Pension Plan Supplement</u>	<u>Post- Retirement Medical Plans</u>
Year Ended December 31, 2002			
Components of net periodic benefit costs:			
Service cost	\$ 13,243	\$ 265	\$ 1,742
Interest cost	19,518	148	2,065
Expected return on plan assets	(22,950)		
Amortization of transition (asset)/obligation	(63)		
Amortization of net:			
Prior service cost	(301)	96	
Recognized actuarial (gain) loss	387	(46)	41
	<u>9,834</u>	<u>463</u>	<u>3,848</u>
Net periodic benefit cost			
Settlements	2,177	(108)	
	<u>12,011</u>	<u>355</u>	<u>3,848</u>
Total benefit cost	<u>\$ 12,011</u>	<u>\$ 355</u>	<u>\$ 3,848</u>
Actual return on plan assets	\$ (24,204)		
Employer contribution	24,341	\$ 587	\$ 975
Plan participants' contributions			
Benefits paid	25,729	587	975
Year Ended December 31, 2003			
Components of net periodic benefit costs:			
Service cost	\$ 14,692	\$ 246	\$ 2,233
Interest cost	22,295	121	2,324
Expected return on plan assets	(20,930)		
Amortization of transition (asset)/obligation	(13)		
Amortization of net:			
Prior service cost	(240)	87	
Recognized actuarial (gain) loss	4,515	(36)	450
	<u>20,319</u>	<u>418</u>	<u>5,007</u>
Net periodic benefit cost			
Settlements			
	<u>20,319</u>	<u>418</u>	<u>5,007</u>
Total benefit cost	<u>\$ 20,319</u>	<u>\$ 418</u>	<u>\$ 5,007</u>
Actual return on plan assets	\$ 36,749		
Employer contribution	25,294	\$ 333	\$ 1,285
Plan participants' contributions			37
Benefits paid	17,750	333	1,322

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Year Ended December 31, 2004

Components of net periodic benefit costs:			
Service cost	\$ 16,998	\$ 341	\$ 1,926
Interest cost	25,373	138	1,088
Expected return on plan assets	(27,422)		
Amortization of transition (asset)/obligation	(116)		
Amortization of net:			
Prior service cost	532	87	
Recognized actuarial (gain) loss	2,588	(17)	30
Net periodic benefit cost	17,953	549	3,044
Settlements (curtailments)	3,656	(609)	(4,488)
Total benefit cost (benefit)	\$ 21,609	\$ (60)	\$ (1,444)
Actual return on plan assets			
Employer contribution	13,024	\$ 131	\$ 1,297
Plan participants contributions			46
Benefits paid	17,061	131	1,343

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LAZARD LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(dollars in thousands, unless otherwise noted)

Expected Benefit Payments The following table summarizes the expected benefit payments for each of the Company's plans for the next five fiscal years and in the aggregate for the five fiscal years thereafter:

	Pension Plans	Pension Plan Supplement	Post-Retirement Medical Plans
	<u> </u>	<u> </u>	<u> </u>
2005	\$ 16,289	\$ 23	\$ 1,302
2006	17,587	26	1,348
2007	18,469	35	438
2008	19,283	40	446
2009	20,093	43	472
2010-2014	114,869	325	3,159

Plan Assets The Company's pension plan weighted-average asset allocations at December 31, 2003 and December 31, 2004 by asset category are as follows:

Asset Category	Plan Assets at December 31	
	<u>2003</u>	<u>2004</u>
Equity Securities	53%	53%
Debt Securities	38	41
Other	9	6
Total	<u>100%</u>	<u>100%</u>

The Other asset category includes cash, annuities and accrued dividends.

Investment Policies and Strategies The Company's Employees Pension Trust The primary investment goal is to ensure that the plan remains well funded, taking account of the likely future risks to investment returns and contributions. As a result, a portfolio of assets is maintained with appropriate liquidity and diversification that can be expected to generate long-term future returns that minimize the long-term costs of the pension plan without exposing the trust to an unacceptable risk of under funding. The Company's likely future ability to pay such contributions as are required to maintain the funded status of the plan over a reasonable time period is considered when determining the level of risk that is appropriate.

Measurement Date The measurement date for the Company's employee benefit plans was December 31, 2004.

Cash Flows

Employer Contributions The Company is expected to make a pension contribution during fiscal year 2005 in the amount of \$7,300.

Employee Contributions Employee pension contributions are neither required nor allowed.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(dollars in thousands, unless otherwise noted)

8. BORROWINGS AND INDEBTEDNESS

Notes Payable The Company's principal notes payable at December 31, 2003 and 2004 are described below:

In May 2001, the Company issued \$50,000 of Senior Notes due 2011 (the Notes). The Notes, which are unsecured obligations, bear interest at an annual rate of 7.53%. Under certain circumstances the interest rate could be increased to 8.03% if a rating downgrade were to occur, with the interest rate returning to 7.53% if a rating upgrade were to occur subsequent to a rating downgrade. A rating downgrade would be deemed to have occurred if the rating most recently assigned to the Notes by a designated rating agency is below investment grade. If, at any time after a rating downgrade has occurred the Notes are assigned a rating of at least investment grade by a designated rating agency, a rating upgrade would have been deemed to have occurred. The Notes are redeemable from time to time in whole or in part at the option of the Company, with payment of a make-whole amount, and the Company is required to offer to redeem the Notes upon a change of control. The proceeds from the Notes were used for general corporate purposes.

The remaining balance at December 31, 2003 and 2004 consists of overdrafts of \$3,512 and \$18,310, respectively, and borrowings under credit arrangements of approximately \$4,399 and \$2,467, respectively, at various interest rates ranging from approximately 3.0% to 8.6% per year, maturing through 2005. Of such arrangements, \$3,067 and \$1,535 at December 31, 2003 and 2004, respectively, relates to a non-recourse term loan, which is collateralized solely by certain fixed assets and leasehold improvements of an equal amount.

The carrying value of borrowings described above approximates fair value.

Subordinated Loans Subordinated loans at December 31, 2003 and 2004 amounted to \$200,000 and consist of amounts due to Intesa in connection with the Strategic Alliance transaction in Italy (Note 5).

LFNY can borrow up to \$150,000 of subordinated debt under a Revolving Credit Agreement, which, based on an approval obtained from LFNY's regulators, qualifies as additional net capital. The interest rate on such borrowings is based upon the prevailing market rate on the dates issued. There were no borrowings outstanding under this agreement as of December 31, 2003 and 2004.

Debt maturities relating to notes payable and subordinated loans outstanding at December 31, 2004 for the five years in the period ending December 31, 2009 and thereafter are set forth below:

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<u>Year Ending December 31,</u>	<u>Amount</u>
2005	\$ 20,777
2006	
2007	
2008	
2009	
Thereafter	250,000
	<u>\$ 270,777</u>

In regard to notes payable and subordinated loans, as of December 31, 2004, the Company is in compliance with all obligations under its various borrowing arrangements.

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(dollars in thousands, unless otherwise noted)

Also see Note 10 below regarding the Company's mandatorily redeemable preferred stock.

9. OTHER ASSETS AND OTHER LIABILITIES

Other assets, at December 31, 2003 and 2004, primarily include prepaid pension assets, current and deferred tax assets, deferred expenses, advances and prepayments and deposits.

Other liabilities, at December 31, 2003 and 2004, primarily include pension and post-retirement medical plan liabilities, deferred income, current and deferred tax liabilities, deferred compensation, liabilities for certain lease commitments relating to abandoned leases (Note 11), accrued expenses and other payables. Additionally, the Company reclassified amounts principally related to tax liabilities from customer payables to other liabilities at December 31, 2003. This reclassification was to conform to the current year presentation.

No individual amount within other assets or other liabilities was greater than 5% of total assets or total liabilities.

10. MANDATORILY REDEEMABLE PREFERRED STOCK

In 2001, the Company issued mandatorily redeemable preferred stock (Class C Preferred Interests) for an aggregate amount of \$100,000. The Class C Preferred Interests are subject to mandatory redemption by the Company in March 2011 and, prior to such date, are redeemable in whole or in part, at the Company's option. The Class C Preferred Interests are entitled to receive distributions out of the profits of the Company at a rate of 8% per annum, which distributions must be paid prior to any distributions of profits to holders of any other existing class of interests in the Company. Unpaid distributions on the Class C Preferred Interests accrue but are not compounded. Upon liquidation of the Company, the Class C Preferred Interests rank senior to Members' equity. Interest on mandatorily redeemable preferred stock for the years ended December 31, 2002, 2003 and 2004 of \$8,000 per year is included in interest expense on the consolidated statements of income.

11. COMMITMENTS AND CONTINGENCIES

Leases The Company leases office space under non-cancelable lease agreements, which expire on various dates through 2022.

Occupancy lease agreements, in addition to base rentals, generally are subject to escalation provisions based on certain costs incurred by the landlord. Included in premises and occupancy costs on the consolidated statements of income for the years ended December 31, 2002, 2003 and 2004 is \$39,520, \$48,503 and \$54,689, respectively, of rental expense relating to operating leases. The Company subleases office space under agreements, which expire on various dates through March 2013. Sublease income from such agreements was \$2,208, \$2,437 and \$3,201 for the years ended December 31, 2002, 2003 and 2004, respectively.

In June 2002, the Company determined that it would no longer utilize certain operating leases in the U.K., which were abandoned in April 2003. In accordance with EITF 88-10, *Costs Associated with Lease Modification or Termination*, the Company has recorded a liability for operating lease commitments, which expire in 2008, that will continue to be incurred for the remaining term of the lease without substantive future use or benefit to the Company. The liability is based on the discounted future

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(dollars in thousands, unless otherwise noted)

commitment net of expected sublease income. The liability approximated \$39,000 at December 31, 2003 and 2004, and is included in other liabilities on the consolidated statements of financial condition. Approximately \$25,000 was recorded as premises and occupancy costs on the consolidated statements of income for the year ended December 31, 2002. During the years ended December 31, 2003 and 2004, due to the deterioration in the market for rentals relating to the abandoned lease and the resulting reduction in the expected sublease income, and increases in costs relating to the abandoned space, the Company recorded approximately \$16,000 and \$6,000 as premises and occupancy costs on the consolidated statements of income for the years ended December 31, 2003 and 2004, respectively.

Capital lease obligations recorded under sale/leaseback transactions are payable through 2017 at a weighted average interest rate of approximately 6.2%. Such obligations are collateralized by certain assets with a net book value of approximately \$109,400 and \$114,024 at December 31, 2003 and 2004, respectively. The carrying value of capital lease obligations approximates fair value.

At December 31, 2004, minimum rental commitments under non-cancelable leases, net of sublease income, are approximately as follows:

Year Ending December 31	Minimum Rental Commitments	
	Capital	Operating
2005	\$ 26,558	\$ 50,145
2006	2,885	48,218
2007	2,885	46,138
2008	2,885	44,789
2009	2,885	43,625
Thereafter	28,456	309,209
Total minimum lease payments	66,554	\$ 542,124
Less amount representing interest	15,008	
Present value of capital lease commitments	\$ 51,546	

Other Commitments At December 31, 2004, the Company has commitments for capital contributions of \$14,031 to Company-sponsored investment funds through 2006 (including \$9,400 in connection with the Company's compensation plans see Note 7) and for guaranteed compensation arrangements with advisors aggregating \$1,644 through 2005. In addition, the Company has agreements relating to future minimum distributions to certain Members or compensation to certain employees of \$62,801 and

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\$8,128, respectively, through 2007 and 2009, respectively, incurred for the purpose of recruiting and retaining these senior professionals. The future minimum distributions relating to Members and employees are \$36,364, \$28,403, \$5,180, \$619 and \$363 for the years ending December 31, 2005, 2006, 2007, 2008 and 2009, respectively. Such agreements are cancelable under certain circumstances. Payments to Members relating to these commitments have been accounted for as distributions from Members capital. Amounts relating to employees have been reflected as employee compensation and benefits, on the consolidated statements of income in the period such expenses are incurred. See Note 18 for information relating to a commitment made subsequent to December 31, 2004.

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(dollars in thousands, unless otherwise noted)

The Company has various other contractual commitments arising in the ordinary course of business. In the opinion of management, the consummation of such commitments will not have a material adverse effect on the Company's consolidated financial position or results of operations.

Exchange/Clearinghouse Member Guarantees The Company is a member of various U.S. and non-U.S. exchanges and clearinghouses that trade and clear securities or futures contracts. Associated with its membership, the Company may be required to pay a proportionate share of the financial obligations of another member who may default on its obligations to the exchange or the clearinghouse. To mitigate these performance risks, the exchanges and clearinghouses often require members to post collateral as well as meet minimum financial standards. While the rules governing different exchange or clearinghouse memberships vary, the Company's guarantee obligations generally would arise only if the exchange or clearinghouse had previously exhausted its resources. In addition, any such guarantee obligation would be apportioned among the other non-defaulting members of the exchange or clearinghouse. Any potential contingent liability under these membership agreements cannot be estimated. The Company has not recorded any contingent liability in the consolidated financial statements for these agreements and believes that any potential requirement to make payments under these agreements is remote.

Legal The Company's businesses, as well as the financial services industry generally, are subject to extensive regulation throughout the world. The Company is involved in a number of judicial, regulatory and arbitration proceedings concerning matters arising in connection with the conduct of our businesses. Management believes, based on currently available information, that the results of such proceedings, in the aggregate, will not have a material adverse effect on its financial condition but might be material to its operating results for any particular period, depending, in part, upon the operating results for such period. As of December 31, 2004, the Company has recorded an accrual for losses for one matter that was settled subsequent thereto.

The Company has received a letter from the NASD as part of what it understands to be an industry investigation relating to gifts and gratuities. In addition, the Company has received a subpoena from the SEC similarly seeking information concerning gifts and entertainment involving a mutual fund company. The Company believes that other broker-dealers have received similar subpoenas. The investigations primarily are focused on the capital markets business that will be part of the separated businesses. These investigations are in their early stages and the Company cannot predict their potential outcomes or estimate any potential loss or range of losses related to them. Accordingly, the Company has not recorded an accrual for losses related to any such judicial, regulatory or arbitration proceedings.

12. MEMBERS EQUITY

Pursuant to the Company's Operating Agreement, the Company allocates and distributes to its Members a substantial portion of its distributable profits in three monthly installments, as soon as practicable after the end of each fiscal year. Such installment distributions usually begin in February. In addition, other periodic distributions to Members include, as applicable, capital withdrawals, fixed return on Members' equity and income tax advances made on behalf of Members. Fixed return on Members

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equity includes (i) a fixed rate on Class C Preferred Interests of 8% per annum, (ii) a defined annual rate of return at the broker's call rate for undistributed payments for services rendered, and (iii) a fixed rate of return of 6% per annum on all other capital excluding certain preferences of Members, as agreed to by all Members. The return on Class C Preferred Interests has been reflected

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in the consolidated statements of income as interest expense (see Note 10). The returns on capital (which, exclusive of the interest on mandatorily redeemable preferred stock, aggregated \$19,677, \$22,061 and \$23,991 for the years ended December 31, 2002, 2003 and 2004, respectively) have been reflected as distributions and withdrawals to Members on the consolidated statements of changes in Members equity.

In addition, Members of the Company (other than in respect of their Class C Preferred Interests) also generally are entitled to participate in goodwill of the Company. The right to participate in goodwill represents the right to share (after payments or reserve for existing preferences of creditors, holders of the Class C Preferred Interests and the capital or capital equivalents of the Members) in the net proceeds of fundamental corporate events, such as a sale of all or substantially all of the assets of the Company or a disposition of a line of business. At December 31, 2004, the aggregate preferences of Members exceeds the amount shown on the consolidated statement of financial condition as Members equity by approximately \$587,000. This amount consists of (i) amounts allocated to the historical partners in respect of the revaluation of the Company's business as a result of the formation of the predecessor entity to Lazard Group in 1984, (ii) amounts allocated to Members in fiscal years 2002, 2003 and 2004 to reflect the value of additional intangibles not previously recognized in the capital accounts of Lazard Group prior to such years and (iii) the cumulative effect of other charges to Members equity reflected in the consolidated statement of financial condition (such as minimum pension liability adjustments) that were not charged to individual Members capital accounts. The amounts related to the revaluation and additional intangibles in clauses (i) and (ii) in the preceding sentence are not reflected in the consolidated statement of financial condition. These aggregate preferences, when added together with Members equity as shown on the consolidated statement of financial condition, equal the total amount of capital associated with the historical partner interest and working member interests.

13. REGULATORY AUTHORITIES

LFNY is a U.S. registered broker-dealer and is subject to the net capital requirements of Rule 15c3-1 under the Securities Exchange Act of 1934. Under the alternative method permitted by this rule, the minimum required net capital, as defined, is 2% of aggregate debit items arising from customer transactions or \$1,500, whichever is greater. LFNY's regulatory net capital at December 2002, 2003 and 2004 was \$74,875, \$146,761 and \$83,165, respectively, which exceeded the minimum requirement by \$73,375, \$145,261 and \$81,665, respectively.

Certain U.K. subsidiaries of the Company, LCL, Lazard Brothers & Co., Limited, Lazard Fund Managers Limited, Lazard Asset Management Limited and in 2004, Lazard European Private Equity Partners LLP (the U.K. Subsidiaries) are regulated by the Financial Services Authority (FSA). At December 31, 2002, 2003 and 2004, the aggregate regulatory net capital of the U.K. subsidiaries was \$308,515, \$320,312 and \$179,963, respectively, which exceeded the minimum requirement by approximately \$170,083, \$201,603 and \$52,578, respectively.

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The Financial Advisory activities of Lazard Frères SAS (LF) and its wholly-owned subsidiaries, including LFB, are authorized by the Comité des Etablissements de Crédit et des Entreprises d Investissement and are regulated by the Comité de la Réglementation Bancaire et Financière. Supervision is exercised by the Commission Bancaire, which is responsible, in liaison with the Banque de France, for ensuring compliance with the regulations. In this context LF has the status of a bank

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(dollars in thousands, unless otherwise noted)

holding company (Compagnie Financière) and LFB is a registered bank (Etablissement de Crédit). In addition, the investment services activities of the Paris group, exercised through LFB and other subsidiaries, primarily LFG (asset management) and Fonds Partenaires Gestion (private equity, merchant banking), are subject to regulation and supervision by the Autorité des Marchés Financiers. At December 31, 2002, 2003 and 2004, the consolidated regulatory net capital of LF was \$94,300, \$137,800 and \$149,000, respectively, which exceeded the minimum requirement set for regulatory capital levels by approximately \$17,600, \$45,000 and \$49,000, respectively.

Certain other U.S. and non-U.S. subsidiaries are subject to various other capital adequacy requirements promulgated by various regulatory and exchange authorities in the countries in which they operate. At December 31, 2002, 2003, and 2004, for those subsidiaries with regulatory capital requirements, aggregate net capital of those subsidiaries were \$18,612, \$28,125 and \$26,126, respectively, which exceeded the minimum required capital by \$7,508, \$14,466 and \$15,544, respectively.

At December 31, 2002, 2003 and 2004, each of these subsidiaries individually were in compliance with its regulatory requirements.

14. INCOME TAXES

Income taxes reflected on the consolidated statements of income are attributable to taxes incurred in non-U.S. entities and to New York City Unincorporated Business Tax (UBT) attributable to the Company s operations apportioned to New York City.

The provisions for income taxes for the years ended December 31, 2002, 2003 and 2004 consist of:

	<u>2002</u>	<u>2003</u>	<u>2004</u>
Current expense:			
Foreign	\$ 43,018	\$ 33,505	\$ 23,750
U.S. (UBT)	2,421	5,070	4,665
Total current	<u>45,439</u>	<u>38,575</u>	<u>28,415</u>
Deferred expense (benefit):			
Foreign	<u>(6,856)</u>	<u>5,846</u>	<u>(40)</u>

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Total deferred	(6,856)	5,846	(40)
Total	\$ 38,583	\$ 44,421	\$ 28,375

UBT attributable to certain Member distributions has been reimbursed by the Members under an agreement with the Company.

A reconciliation of the U.S. federal statutory income tax rate to the Company's effective tax rates is set forth below:

	2002	2003	2004
U.S. federal statutory income tax rate	35.0%	35.0%	35.0%
Rate benefit for U.S. partnership operations	(35.0)	(35.0)	(35.0)
Impact of Foreign operations	9.6	10.1	6.6
State and local (UBT) net	0.7	1.3	1.3
Effective Income Tax Rate	10.3%	11.4%	7.9%

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(dollars in thousands, unless otherwise noted)

Deferred income taxes reflect the net tax effects of temporary differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when such differences are expected to reverse. Such temporary differences are reflected in deferred tax assets and liabilities and are included in other assets and other liabilities, respectively, on the consolidated statements of financial condition.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will be realized. The ultimate realization of the deferred tax assets is dependent upon the generation of future taxable income during the periods in which temporary differences become deductible. Management considers the level of historical taxable income, scheduled reversals of deferred taxes, projected future taxable income and tax planning strategies that can be implemented by the Company in making this assessment. At December 31, 2003 and 2004, deferred tax assets of \$60,278 and \$88,007, respectively, have been offset by a valuation allowance primarily due to the uncertainty of realizing the benefit of certain foreign net operating loss carry-forwards. Considering the cumulative recent historical losses incurred in the U.K., there is uncertainty related to the potential for future taxable profits to be recognized in the U.K., and there are various limitations under U.K. tax law applied to carry-forward losses. Therefore, management has determined that it is more likely than not that such assets will not be realized. As of December 31, 2004, the Company's foreign subsidiaries have net operating loss carryforwards of approximately \$196,000, which may be carried forward indefinitely, subject to various limitations on use which affect the ability to apply such loss carry-forwards to future taxable profits.

Significant components of the Company's deferred tax assets and deferred tax liabilities at December 31, 2003 and 2004 are as follows:

	<u>2003</u>	<u>2004</u>
Deferred Tax Assets:		
Compensation and benefits	\$ 2,483	\$ 5,308
Pensions	7,411	15,919
Depreciation and amortization	878	17
Other	1,669	6,409
Net operating loss and tax credit carryforwards	47,837	64,672
	<u>60,278</u>	<u>92,325</u>
Gross deferred tax assets	60,278	92,325
Valuation allowance	(60,278)	(88,007)
	<u>60,278</u>	<u>92,325</u>
Total deferred tax assets (net of valuation allowance)	<u>\$ 60,278</u>	<u>\$ 4,318</u>
Deferred Tax Liabilities:		
Compensation and benefits	\$ 1,085	\$
Unrealized gains on long-term investments	4,924	3,998
Other		40

Depreciation and amortization	15,760	21,158
	<u> </u>	<u> </u>
Total deferred tax liabilities	\$ 21,769	\$ 25,196
	<u> </u>	<u> </u>

15. SEGMENT OPERATING RESULTS

The Company's reportable segments offer different products and services and are managed separately as different levels and types of expertise are required to effectively manage the segments' transactions. Each segment is reviewed to determine the allocation of resources and to assess its

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performance. In reporting to management, the Company's business results are categorized into the following three segments: Financial Advisory, Asset Management and Capital Markets and Other. Financial Advisory includes providing advice on mergers, acquisitions, restructurings and other financial matters. Asset Management includes the management of equity and fixed income securities and merchant banking funds. Capital Markets and Other consists of equity, fixed income and convertibles sales and trading, broking, research and underwriting services, merchant banking fund management activities outside of France and specified non-operating assets and liabilities. In addition, the Company records selected other activities in Corporate, including cash and marketable investments, certain long-term investments, and LFB. LFB is a registered bank regulated by the Banque de France. LFB's primary operations include commercial banking, the management of the treasury positions of the Company's Paris House through its money market desk and, to a lesser extent, credit activities relating to securing loans granted to clients of LFG and custodial oversight over assets of various clients. In addition, LFB also operates many support functions of the Paris House. The Company also allocates outstanding indebtedness to Corporate.

The accounting policies of the segments are consistent with those described in the summary of significant accounting policies in Note 2.

The Company's segment information for the years ended December 31, 2002, 2003 and 2004 is prepared using the following methodology:

Revenue and expenses directly associated with each segment are included in determining operating income.

Expenses not directly associated with specific segments are allocated based on the most relevant measures applicable, including headcount, square footage and other factors.

Segment assets are based on those directly associated with each segment, and include an allocation of certain assets relating to various segments, based on the most relevant measures applicable, including headcount, square footage and other factors.

The Company allocates trading gains and losses, investment gains and losses, interest income and interest expense among the various segments based on the segment in which the underlying asset or liability is reported.

Each segment's operating expenses include (i) employee compensation and benefits expenses that are incurred directly in support of the businesses and (ii) other operating expenses, which include directly incurred expenses for premises and occupancy, professional fees, travel and entertainment, communications and information services, equipment and indirect support costs (including compensation and other operating expenses related thereto) for administrative services. Such administrative services include, but are not limited to, accounting, tax, legal, facilities management and senior management activities.

The Company evaluates segment results based on net revenue and operating income.

There were no clients for the years ended December 31, 2002, 2003 and 2004 that individually constituted more than 10% of total revenue.

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(dollars in thousands, unless otherwise noted)

Management believes that the following information provides a reasonable representation of each segment's contribution to net revenue, operating expenses, operating income and total assets. Certain prior year amounts have been reclassified to conform to the manner of presentation in the current year.

		<u>As of or for the Year Ended December 31,</u>		
		<u>2002</u>	<u>2003</u>	<u>2004</u>
Financial Advisory	Net Revenue	\$ 532,896	\$ 690,967	\$ 655,200
	Operating Expenses (a)	330,802	380,250	443,682
	Operating Income	\$ 202,094	\$ 310,717	\$ 211,518
	Total Assets	\$ 222,653	\$ 339,454	\$ 380,331
Asset Management	Net Revenue	\$ 454,683	\$ 350,348	\$ 417,166
	Operating Expenses (a)	298,617	239,888	282,029
	Operating Income	\$ 156,066	\$ 110,460	\$ 135,137
	Total Assets	\$ 252,629	\$ 198,692	\$ 245,449
Capital Markets and Other	Net Revenue	\$ 174,309	\$ 135,534	\$ 188,100
	Operating Expenses (a)	158,411	182,195	192,471
	Operating Income (Loss)	\$ 15,898	\$ (46,661)	\$ (4,371)
	Total Assets	\$ 1,037,493	\$ 1,422,758	\$ 1,488,675
Corporate	Net Revenue	\$ 4,391	\$ 6,535	\$ 13,839
	Operating Expenses (a)	2,404	(8,303)	(1,639)
	Operating Income	\$ 1,987	\$ 14,838	\$ 15,478
	Total Assets	\$ 947,950	\$ 1,296,325	\$ 1,384,769
Total	Net Revenue	\$ 1,166,279	\$ 1,183,384	\$ 1,274,305
	Operating Expenses (a)	790,234	794,030	916,543

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Operating Income	\$ 376,045	\$ 389,354	\$ 357,762
Total Assets	\$ 2,460,725	\$ 3,257,229	\$ 3,499,224

(a) Operating expenses include depreciation and amortization as set forth in table below.

	Year Ended December 31,		
	2002	2003	2004
Financial Advisory	\$ 4,138	\$ 5,686	\$ 4,792
Asset Management	4,475	1,638	1,871
Capital Markets and Other	434	2,082	2,295
Corporate	3,109	4,588	7,980
Total	\$ 12,156	\$ 13,994	\$ 16,938

Geographic Information

Due to the highly integrated nature of international financial markets, the Company manages its business based on the profitability of the enterprise as a whole. The Company's revenue and identifiable assets are generally allocated based on the country or domicile of the legal entity providing the service.

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The following table sets forth the net revenue and identifiable assets of the Company and its consolidated subsidiaries by geographic region allocated on the basis described above.

	As of or for the Year Ended December 31,		
	2002	2003	2004
Net Revenue:			
North America	\$ 652,090	\$ 675,223	\$ 675,736
United Kingdom	189,426	136,599	212,522
France	169,053	164,669	188,507
Other Western Europe	118,567	178,424	175,065
Rest of World	37,143	28,469	22,475
Total	\$ 1,166,279	\$ 1,183,384	\$ 1,274,305
Identifiable Assets:			
North America	\$ 1,085,657	\$ 1,763,544	\$ 1,804,346
United Kingdom	358,212	330,461	396,873
France	874,818	942,930	1,082,432
Other Western Europe	119,416	194,250	182,144
Rest of World	22,622	26,044	33,429
Total	\$ 2,460,725	\$ 3,257,229	\$ 3,499,224

16. PANMURE GORDON ASSET ACQUISITION

In January 2004, a subsidiary of the Company acquired certain assets, net of certain liabilities, of West LB Panmure Limited, an unrelated entity in the U.K. Subsequent to the acquisition, the acquired business became part of the Company's Capital Markets and Other segment, operating as Panmure Gordon, a division of LCL. Panmure Gordon provides clients with corporate finance advisory services, corporate broking capabilities and equity sales and trading. The total purchase price allocated to the net assets of the business acquired was \$1,580 related to legal costs incurred to complete the transaction. The fair value of the net assets acquired over the purchase price of those net assets amounted to \$5,658. In accordance with SFAS No. 141, *Business Combinations*, the Company recognized an extraordinary gain of \$5,507 after reducing long-lived assets principally representing property to \$0. See Note 18 for further information relating to Panmure Gordon.

17. FAIR VALUE OF FINANCIAL INSTRUMENTS

The majority of the Company's assets and liabilities are recorded at fair value or at amounts that approximate fair value. Such assets and liabilities include: cash and cash equivalents, cash and securities segregated for regulatory purposes, marketable investments and long-term investments, securities purchased under agreements to resell and securities sold under agreements to repurchase, securities owned and securities sold, not yet purchased, swaps and other contractual agreements, receivables and payables, and other short-term borrowings and payables (also see discussion in Note 2).

The fair value of certain of the Company's other assets and liabilities are disclosed below.

Subordinated Loans The Company's subordinated loans are recorded at historical amounts. The fair value of the Company's subordinated loans was estimated using a discounted cash flow analysis based

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on the Company's current borrowing rates for similar types of borrowing arrangements. At December 31, 2004, the carrying value of the Company's subordinated loans approximated fair value.

Mandatorily Redeemable Preferred Stock The Company's mandatorily redeemable preferred stock is recorded at \$100,000 which approximates fair value. The fair value was estimated using a discounted cash flow analysis based on the Company's current borrowing rates for similar types of borrowing arrangements and the Company's ability to redeem the preferred stock at its option. At December 31, 2003 and 2004, the estimated fair value of the Company's mandatorily redeemable preferred stock approximated the carrying value.

18. SUBSEQUENT EVENTS

Initial Public Offering It is currently contemplated that the Company will cause Lazard Ltd, a Bermuda company, to proceed with an initial public offering involving a portion of the Company's business as well as certain additional financing transactions. The historical consolidated financial statements reflect the historical results of operations and financial position of the Company, including the separated businesses, for all years presented. Accordingly, the historical financial statements do not reflect what the results of operations and financial position of Lazard Ltd or the Company would have been had these companies been stand-alone, public companies for the years presented. Specifically, the historical results of operations do not give effect to the following matters:

The separation of the Company's Capital Markets and Other activities, which consists of equity, fixed income and convertibles sales and trading, broking, research and underwriting services, merchant banking fund management activities outside of France and specified non-operating assets and liabilities.

Payment for services rendered by the Company's managing directors, which, as a result of the Company operating as a limited liability company, historically has been accounted for as distributions from members' capital, or in some cases as minority interest, rather than as compensation and benefits expense. As a result, the Company's operating income historically has not reflected payments for services rendered by its managing directors. After this offering, Lazard Ltd will include all payments for services rendered by its managing directors in compensation and benefits expense.

U.S. corporate federal income taxes, since the Company has operated in the U.S. as a limited liability company that was treated as a partnership for U.S. federal income tax purposes. As a result, the Company's income has not been subject to U.S. federal income taxes. Taxes related to income earned by partnerships represent obligations of the individual partners. Outside the U.S., the Company historically has operated principally through subsidiary corporations and has been subject to local income taxes. Income taxes shown on the Company's historical consolidated statements of income are attributable to taxes incurred in non-U.S. entities and to UBT attributable to the Company's operations apportioned to New York City.

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In addition, the business alliance agreement to be entered into between the Company and LFCM Holdings LLC, a newly-formed Delaware limited liability company that will hold the business to be separated from Lazard Group in connection with the initial public offering, or LFCM Holdings, will grant the Company the option to acquire the North American and European fund management activities of Lazard Alternative Investments Holdings LLC (LAI), the subsidiary of LFCM Holdings that will own and operate all of LFCM Holdings merchant banking activities, exercisable at any time prior to

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the ninth anniversary of the consummation of this offering for a total price of \$10,000. The option may be exercised by Lazard Group in two parts, consisting of an \$8,000 option to purchase the North American merchant banking activities and a \$2,000 option to purchase the European merchant banking activities. LAI's merchant banking activities initially will consist of the merchant banking management and general partner entities, together with the Company's direct investments in related funds, that were transferred to LFCM Holdings pursuant to or in anticipation of the separation.

On February 25, 2005, Lazard Group formed a new private equity fund, Corporate Partners II Limited, with \$1 billion of institutional capital commitments and a \$100 million capital commitment from Lazard Group through 2010. Pursuant to the master separation and business alliance agreements, following the completion of the separation, this fund will be managed by a subsidiary of LFCM Holdings, and Lazard Group will retain a capital commitment to the fund and will be entitled to receive the carried interest distributions made by the fund (other than the carried interest distributions made to investment professionals who manage the fund).

The business alliance agreement will provide the Company with certain governance rights with respect to LAI and provide for support by LFCM Holdings of the business of LAI. With respect to historic investments and funds transferred to LFCM Holdings as part of the separation, profits realized prior to the option exercise would be for the account of LFCM Holdings whereas profits realized after the exercise of the option would be for the account of Lazard Group. Lazard Group intends to invest capital in future funds to be managed by LFCM Holdings' subsidiaries and will be entitled to receive incentive fee payments from such funds, as well as profits related to such investments, if any, irrespective of whether it exercises its purchase option.

If the initial public offering and additional financing transactions are consummated, the Company intends to use the net proceeds primarily to (i) redeem membership interests held by the historical partners based on their total capital, including preferences (Note 12), (ii) capitalize the separated businesses, and (iii) repay the 7.53% Senior Notes due 2011 in aggregate principal amount of \$50,000 (Note 8).

Panmure Gordon On February 1, 2005, Lazard Group announced that it had entered into a non-binding memorandum of understanding with Durlacher Corporation PLC, an unaffiliated U.K. broking firm focused on the small and mid cap sector, for the acquisition by Durlacher of Panmure Gordon. The Company expects that if consummated, the combined company would be owned one-third by former Durlacher stockholders, one-third by the Company (or upon completion of the separation, LFCM Holdings) and one-third by the employees of the combined company. The transaction is subject to entry into definitive agreements and customary closing conditions, including approval of the Durlacher stockholders. Pursuant to the terms of a letter agreement, Lazard Group and LFCM Holdings will share any cash proceeds to be derived from the sale of Panmure Gordon to Durlacher if the separation is completed and such sale occurs within six months of the date of the letter agreement.

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No dealer, salesperson or other person is authorized to give any information or to represent anything not contained in this prospectus. You must not rely on any unauthorized information or representations. This prospectus is an offer to sell only the shares offered hereby, but only under circumstances and in jurisdictions where it is lawful to do so. The information contained in this prospectus is current only as of its date.

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Through and including _____, 2005 (the 25th day after the date of this prospectus), all dealers effecting transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to a dealer's obligation to deliver a prospectus when acting as an underwriter and with respect to an unsold allotment or subscription.

30,464,579 Shares

Lazard Ltd

Class A Common Stock

Goldman, Sachs & Co.

Citigroup

Lazard

Merrill Lynch & Co.

Morgan Stanley

Credit Suisse First Boston

JPMorgan

Table of Contents**PART II****INFORMATION NOT REQUIRED IN PROSPECTUS****Item 13. *Other Expenses of Issuance and Distribution***

The following table sets forth the estimated costs and expenses, other than underwriting discounts and commissions, payable in connection with the sale of the common stock being registered, all of which will be paid by the Registrant:

	Amount
SEC registration fee	\$ 111,335
New York Stock Exchange listing fee	250,000
National Association of Securities Dealers, Inc. filing fee	30,500
Printing and engraving expenses	1,800,000
Legal fees and expenses	16,000,000
Accounting fees and expenses	2,880,000
Blue sky fees and expenses	25,000
Transfer agent and registrar fees and expenses	10,000
Miscellaneous	1,377,165
Total	\$ 22,484,000

Item 14. *Indemnification of Directors and Officers*

The bye-laws of the Registrant provide for indemnification of the Registrant's officers and directors against all liabilities, loss, damage or expense incurred or suffered by such party as an officer or director of the Registrant; provided that such indemnification shall not extend to any matter which would render it void pursuant to the Companies Act 1981 of Bermuda (the Companies Act).

The Companies Act provides that a Bermuda company may indemnify its directors and officers in respect of any loss arising or liability attaching to them as a result of any negligence, default or breach of trust of which they may be guilty in relation to the company in question. However, the Companies Act also provides that any provision, whether contained in the company's bye-laws or in a contract or arrangement between the company and the director or officer, indemnifying a director or officer against any liability which would attach to him or her in respect of his fraud or dishonesty will be void.

The directors and officers of the Registrant are covered by directors and officers insurance policies maintained by the Registrant.

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The proposed form of underwriting agreement to be filed as Exhibit 1.1 to this registration statement provides for indemnification of directors and certain officers of the Registrant by the underwriters against certain liabilities.

Item 15. *Recent Sales of Unregistered Securities*

On November 1, 2004, the Registrant issued 12,000 shares of common stock, par value \$1.00 per share, 11,880 of which were issued to Lazard Frères & Co. LLC and 120 of which were issued to Lazard Holdings, Inc. In the opinion of the Registrant, this transaction was exempt from registration under the Securities Act of 1933, as amended (the Securities Act), by virtue of Section 4(2) thereof in that such transaction did not involve any public offering.

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Concurrently with this offering, Lazard LLC intends to privately place \$650 million aggregate principal amount of % senior notes due 2015. The completion of that offering will be conditioned upon the completion of this offering and the ESU offering. In the opinion of the Registrant, this transaction is exempt from registration under Rule 144A of the Securities Act.

As part of the additional financing transactions, the Registrant has entered into an investment agreement with IXIS Corporate & Investment Bank, or IXIS. Under the investment agreement, IXIS has agreed to purchase an aggregate of \$200 million of the Registrant's securities concurrently with this offering, \$150 million of which will be debt securities of a financing subsidiary that are effectively exchangeable into the Registrant's common stock and \$50 million of which will be shares of the Registrant's common stock. The price per security to be paid by IXIS will be equal to the initial public offering price in a registered public offering of securities or the price offered to qualified institutional investors in a private placement of securities, as the case may be. With respect to the exchangeable debt securities, IXIS or one of its affiliates will receive underwriting fees or commissions equal in percentage terms to those paid to the underwriters for the public offering or private placement of the exchangeable debt securities. In the opinion of the Registrant, this transaction is exempt from registration under the Securities Act under Section 4(2) of the Securities Act and Regulation S promulgated thereunder.

The Registrant intends to offer to redeem Lazard LLC Class B-1 interests from the principal executive officer of Lazard LLC in exchange for shares of the Registrant's common stock. This holder will be entitled to receive the number of shares of the Registrant's common stock (valued at the price per share in this offering) equal in value to the aggregate price that such holder would have been able to receive in cash for such redemption. The exchange of Class B-1 interests shall be effected by the holder contributing such interests to a newly formed corporation, and then exchanging the shares of that corporation with the Registrant for shares of the Registrant's common stock. In the opinion of the Registrant, this transaction is exempt from registration under Section 4(2) of the Securities Act.

Table of Contents**Item 16. Exhibits and Financial Statement Schedules**

Exhibit Number	Exhibit Title
1.1	Form of Underwriting Agreement.*
2.1	Form of Master Separation Agreement.*
2.2	Class B-1 and Class C Members Transaction Agreement.*
3.1	Certificate of Incorporation and Memorandum of Association.*
3.2	Certificate of Incorporation in Change of Name.*
3.3	Form of Amended and Restated Bye-laws.*
4.1	Form of Specimen Certificate for Class A common stock.*
4.2	Form of Indenture of Lazard Group Finance LLC.**
4.3	Form of Supplemental Indenture to the Indenture relating to the Lazard Group Finance LLC senior notes.***
4.4	Form of Purchase Contract Agreement relating to the Lazard Ltd purchase contracts, which are components of the Lazard Ltd equity security units.**
4.5	Form of Pledge Agreement relating to the Lazard Group Finance LLC senior notes, which are components of the Lazard Ltd equity security units.**
4.6	Form of Pledge Agreement relating to the Lazard Group notes.**
4.7	Form of Normal Equity Security Units Certificate (included in Exhibit 4.4).
4.8	Form of Stripped Equity Security Units Certificate (included in Exhibit 4.4).
4.9	Form of Senior Note (included in Exhibit 4.3).
5.1	Form of Opinion of Conyers Dill & Pearman, Bermuda.
8.1	Form of Opinion of Wachtell, Lipton, Rosen & Katz.*
8.2	Form of Opinion of Conyers Dill & Pearman, Bermuda (included in Exhibit 5.1).
10.1	Form of the LAZ-MD Holdings Stockholders Agreement.*
10.2	Form of Lazard Group Fourth Amended and Restated Limited Liability Company Operating Agreement.*
10.3	Form of Tax Receivable Agreement.
10.4	Form of Employee Benefits Agreement.
10.5	Form of Insurance Matters Agreement.*
10.6	Form of Lazard License Agreement.*
10.7	Form of Administrative Services Agreement.*
10.8	Form of Business Alliance Agreement.*
10.9	First Amended and Restated Limited Liability Company Agreement of Lazard Asset Management LLC, dated as of January 10, 2003.*
10.10	Master Transaction and Relationship Agreement, dated as of March 26, 2003, by and among Banca Intesa S.p.A., Lazard LLC and Lazard & Co. S.r.l.*
10.11	Note Purchase Agreement, dated as of March 26, 2003, by and among Lazard Funding LLC, Lazard LLC and Banca Intesa S.p.A.*
10.12	\$150 Million Subordinated Convertible Promissory Note due 2018, issued by Lazard Funding LLC to Banca Intesa S.p.A.*
10.13	\$50 Million Subordinated Non-Transferable Promissory Note due 2078, issued by Lazard & Co. S.r.l. to Banca Intesa S.p.A.*

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<u>Exhibit Number</u>	<u>Exhibit Title</u>
10.14	Guaranty of Lazard LLC to Banca Intesa S.p.A., dated as of March 26, 2003.*
10.15	Amended and Restated Operating Agreement of Lazard Strategic Coordination Company LLC, dated as of January 1, 2002.*
10.16	Note Purchase Agreement, dated as of May 11, 2001, by and between Lazard Funding Limited LLC, Lazard LLC, and the purchasers thereto.*
10.17	Amendment No. 1, dated as of August 27, 2003, to the Note Purchase Agreement, dated as of May 11, 2001, by and between Lazard Funding Limited LLC, Lazard LLC, and the purchasers thereto.*
10.18	Lease, dated as of January 27, 1994, by and between Rockefeller Center Properties and Lazard Frères & Co.*
10.19	Lease with an Option to Purchase, dated as of July 11, 1990, by and between Sicomibail and Finabail and SCI du 121 Boulevard Hausmann (English translation).*
10.20	Occupational Lease, dated as of August 9, 2002, Burford (Stratton) Nominee 1 Limited, Burford (Stratton) Nominee 2 Limited, Burford (Stratton) Limited, Lazard & Co., Limited and Lazard LLC.*
10.21	2005 Equity Incentive Plan.*
10.22	2005 Bonus Plan.*
10.23	Form of Agreement relating to Retention and Noncompetition and Other Covenants between Lazard Ltd, Lazard Group LLC and Bruce Wasserstein.*
10.24	Form of Agreement relating to Reorganization of Lazard by and between Lazard LLC and Bruce Wasserstein.*
10.25	Form of Agreement relating to Retention and Noncompetition and Other Covenants between Lazard Ltd, Lazard Group LLC and Steven J. Golub.*
10.26	Form of Agreement relating to Retention and Noncompetition and Other Covenants applicable to, and related Schedule I for, each of Michael J. Castellano, Scott D. Hoffman and Charles G. Ward III.*
10.27	Form of Agreements relating to Retention and Noncompetition and Other Covenants.*
10.28	Form of Amended and Restated Letter Agreement, effective as of January 1, 2004, between Vernon E. Jordan, Jr. and Lazard Frères & Co. LLC.
10.29	Letter Agreement, dated as of March 15, 2005, from IXIS Corporate and Investment Bank to Lazard LLC and Lazard Ltd.*
10.30	Form of Registration Rights Agreement, by and among Lazard Group Finance LLC, Lazard, Lazard LLC and IXIS Corporate and Investment Bank.*
12.1	Condensed Financial Information of Lazard LLC for the Years Ended December 31, 2002, 2003 and 2004.*
21.1	List of Subsidiaries of the Registrant.
23.1	Consent of Deloitte & Touche LLP.
23.2	Consent of Conyers Dill & Pearman, Bermuda.
23.3	Consent of Bruce Wasserstein to be named as a director nominee.*
23.4	Consent of Robert Charles Clark to be named as a director nominee.*
23.5	Consent of Ellis Jones to be named as a director nominee.*
23.6	Consent of Vernon E. Jordan, Jr. to be named as a director nominee.*
23.7	Consent of Anthony Orsatelli to be named as a director nominee.*
23.8	Consent of Wachtell, Lipton, Rosen & Katz (included in Exhibit 8.1).

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<u>Exhibit Number</u>	<u>Exhibit Title</u>
23.9	Consent of Appleby Spurling Hunter.***
24.1	Powers of Attorney.*
24.2	Power of Attorney for Bruce Wasserstein.*
<hr/>	
*	Previously filed.
**	Incorporated by reference to Amendment No. 1 to Lazard Ltd and Lazard Group Finance LLC's Registration Statement on Form S-1 (File No. 333-123463) filed on April 18, 2005, relating to the equity security units offering of Lazard Ltd and Lazard Group Finance LLC.
***	To be filed by amendment.

Item 17. Undertakings

(i) The undersigned Registrant hereby undertakes to provide to the underwriters at the closing specified in the Underwriting Agreement, certificates in such denominations and registered in such names as required by the underwriters to permit prompt delivery to each purchaser.

(ii) Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the Registrant pursuant to the foregoing provisions, or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission, such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

(iii) The undersigned Registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the Registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

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Signatures

Pursuant to the requirements of the Securities Act of 1933, as amended, the Registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of New York, State of New York, on April 18, 2005.

LAZARD LTD

By: /s/ Bruce Wasserstein

Name: Bruce Wasserstein
Title: Chief Executive Officer

Power of Attorney

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

<u>Signature</u>	<u>Title</u>	<u>Date</u>
/s/ Bruce Wasserstein	Director and Chief Executive Officer	April 18, 2005
Bruce Wasserstein	(principal executive officer)	
/s/ Steven J. Golub	Director and President	April 18, 2005
Steven J. Golub		
/s/ Michael J. Castellano	Director and Vice President (principal financial and accounting officer)	April 18, 2005
Michael J. Castellano		
/s/ Scott D. Hoffman	Director and Vice President	April 18, 2005
Scott D. Hoffman		

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