Energy Transfer Partners, L.P.
Form 424B3
October 05, 2009

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Registration No. 333-161706

Prospectus

ENERGY TRANSFER PARTNERS, L.P.

7,500,000 Common Units

This prospectus relates to up to 7,500,000 common units representing limited partner interests in us that we may offer from time to time in connection with acquisitions by us or our subsidiaries of businesses, assets or securities of other entities whether by purchase, merger or any other form of acquisition or business combination.

The amount and type of consideration we will offer and the other specific terms of each acquisition will be determined by negotiations with the owners or the persons who control the businesses, assets or securities we may acquire. We may structure business acquisitions in a variety of ways, including, but not limited to, acquiring stock, other equity interests or assets of the acquired business, merging the acquired business with us or one of our subsidiaries or acquiring the acquired business through one of our subsidiaries. We expect that the price of the common units we issue will be related to their market price, either when we tentatively or finally agree to the particular terms of the acquisition, when we issue the common units, when the acquisition is completed or during some other negotiated period, and may be based on average market prices or otherwise. We may issue common units at fixed offering prices, which may be changed, or at other negotiated prices. We will provide further information by means of a post-effective amendment to the registration statement or a supplement to this prospectus once we know the actual information concerning a specific acquisition.

We will pay all expenses of this offering. We do not expect to pay any underwriting discounts or commissions in connection with issuing these common units, although we may pay finder s fees in connection with certain acquisitions. Any person receiving a finder s fee may be deemed an underwriter within the meaning of the Securities Act of 1933.

We may also permit individuals or entities who have received or will receive common units in connection with the acquisitions described above to use this prospectus to cover resales of those common units. See Selling Unitholders for information relating to resales of our common units pursuant to this prospectus.

Our common units are traded on the New York Stock Exchange, or the NYSE, under the symbol ETP. The last reported sales price of our common units on the NYSE on October 2, 2009 was $41.65 per common unit.

Investing in our securities involves risks. Please read Risk Factors beginning on page 3 of this prospectus for a discussion of the material risks involved in investing in our securities.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of 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 October 2, 2009.

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ABOUT THIS PROSPECTUS

Unless the context requires otherwise, all references in this prospectus to we, us, ETP, the Partnership and our re
to Energy Transfer Partners, L.P., and its operating partnerships and their subsidiaries. This prospectus is part of a shelf registration statement that we have filed with the Securities and Exchange Commission, or the SEC. Under the shelf registration process, we may, from time to time, offer common units representing limited partner interests in us to acquire other securities, businesses or assets. All of the common units offered by this prospectus may, subject to certain conditions, also be subsequently offered and resold from time to time pursuant to this prospectus by unitholders who receive our common units in those acquisitions.

This prospectus gives you a general description of the common units that we may offer. Once we know the actual information concerning a specific acquisition, we will be required to provide further information either by means of a post-effective amendment to the registration statement of which this prospectus is a part, or by means of a prospectus supplement. You should read this prospectus and any applicable post-effective amendment or prospectus supplement, together with the additional information described under the heading Where You Can Find More Information.

The information in this prospectus is accurate as of its date. You should rely only on the information contained in this prospectus and the information we have incorporated by reference. We have not authorized anyone to provide you with different information. You should not assume that the information provided by this prospectus or the information we have incorporated by reference is accurate as of any date other than the date of the respective document or information, as applicable. If information in any of the documents we have incorporated by reference conflicts with information in this prospectus, you should rely on the most recent information. If information in an incorporated document conflicts with information in another incorporated document, you should rely on the information in the most recent incorporated document.

This prospectus incorporates important business and financial information that is not included in or delivered with this prospectus. This information is available without charge upon written or oral request to Energy Transfer Partners, L.P., 3738 Oak Lawn Avenue, Dallas, Texas 75219, Attention: Investor Relations, Telephone: (214) 981-0700. To ensure timely delivery of the requested information, you should make your request no later than five business days before the date you must make your investment decision.

YOU SHOULD CAREFULLY READ THIS PROSPECTUS AND THE INFORMATION WE HAVE INCORPORATED BY REFERENCE AS DESCRIBED UNDER THE SECTION ENTITLED WHERE YOU CAN FIND MORE INFORMATION. WE ARE NOT MAKING AN OFFER OF THESE SECURITIES IN ANY STATE WHERE SUCH OFFER OR SALE IS NOT PERMITTED.

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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, an interstate pipeline, natural gas treating and processing assets located in Texas, New Mexico, Arizona, Louisiana, Utah and Colorado, and three natural gas storage facilities located in Texas. These assets include approximately 17,500 miles of pipeline in service. We also have a 50% interest in joint ventures with approximately 500 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 and other producing areas in south Texas and central Texas. 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.

CAUTIONARY STATEMENT REGARDING 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, coul may, and similar expressions and statements regarding our plans and objectives for future operations, are intended to identify forward-looking statements. Although we and our general partner believe that the expectations on which such forward-looking statements are based are reasonable, neither we nor our general partner can give assurances that such expectations will prove to be correct. Forward-looking statements are subject to a variety of risks, uncertainties and assumptions. If one or more of these risks or uncertainties materialize, or if underlying assumptions prove incorrect, our actual results may vary materially from those anticipated, estimated, projected or expected. Among the key risk factors that may have a direct bearing on our results of operations and financial condition are:

- the amount of natural gas transported on our pipelines and gathering systems;
- the level of throughput in our natural gas processing and treating facilities;
- the fees we charge and the margins we realize for our gathering, treating, processing, storage and transportation services;
- the prices and market demand for, and the relationship between, natural gas and natural gas liquids, or NGLs;
- energy prices generally;
- the prices of natural gas and propane compared to the price of alternative and competing fuels;
- the general level of petroleum product demand and the availability and price of propane supplies;
- the level of domestic oil, propane and natural gas production;

the availability of imported oil and natural gas;

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

actions taken by foreign oil and gas producing nations;

the political and economic stability of petroleum producing nations;

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

availability of local, intrastate and interstate transportation systems;

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

availability and marketing of competitive fuels;

the impact of energy conservation efforts;

energy efficiencies and technological trends;

governmental regulation and taxation;

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

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

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

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;

the further deterioration of the credit and capital markets;

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

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

the costs and effects of legal and administrative proceedings.

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

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 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 on 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 hedging activities.

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

- the level of capital expenditures we make;
- the level of costs related to litigation and regulatory compliance matters;

the cost of acquisitions, if any;

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

our debt service requirements;

fluctuations in our working capital needs;

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

our ability to access capital markets;

restrictions on distributions contained in our debt agreements; and the amount, if any, of cash reserves established by the 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, you 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 the 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 trading market could reduce the market price of unitholders limited partner interests.

As of June 30, 2009, Energy Transfer Equity, L.P., or ETE, owned 62,500,797 common units. ETE 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.

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

As of June 30, 2009, we had approximately $5.74 billion of consolidated debt outstanding. Our level of indebtedness affects our operations in several ways, including, among other things:

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

covenants contained in our existing debt arrangements 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 and affirmative covenants of the credit agreements could negatively impact our ability and the ability of our subsidiaries to incur additional debt and our ability to pay our distributions. We are required to measure these financial tests and covenants quarterly and,

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as of June 30, 2009, we were in compliance with all financial requirements, tests, limitations, and covenants related to financial ratios under our existing credit agreements.

Completion of pipeline expansion 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 expansion capital expenditures, including any future pipeline expansion 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. In addition, we may be unable to obtain adequate funding under our current revolving credit facility because our lending counterparties may be unwilling or unable to meet their funding obligations. 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 June 30, 2009, we had approximately $5.74 billion of consolidated debt outstanding. 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 materially adversely affect our business, results of operations, cash flows and financial condition.

In addition to our exposure to commodity prices, we have significant exposure to increases in interest rates. As of June 30, 2009, we had approximately $5.74 billion of consolidated debt, all of which was at fixed interest rates. Our revolving credit facilities have variable interest rates, therefore, any future borrowings under those facilities would be at variable rates. We manage a portion of our interest rate exposures by utilizing interest rate swaps and similar arrangements. To the extent that we have debt with variable interest rates that is not hedged, our results of operations, cash flows and financial condition, could be materially adversely affected by significant increases in interest rates. As of June 30, 2009, we had outstanding forward starting interest rate swaps with a notional amount of $500.0 million for a forecasted debt issuance by the end of 2009. These swaps were not designated as cash flow hedges; therefore, changes in interest rates could adversely affect our results of operations until the forecasted debt is issued and could require a cash payment upon settlement.

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 master limited partnership due to the significant influence of our general partner and its indirect owner over our business activities, including our cash distribution and 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 the partnership 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 to service such indebtedness. Any distributions by us to ETE will be made only after satisfying our then current obligations to our creditors. Although we have taken certain steps in our organizational structure, financial reporting and contractual relationships to reflect the separateness of us, Energy Transfer Partners GP, L.P. (ETP GP) and Energy Transfer Partners, L.L.C. (ETP

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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 more risky 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 us and our unitholders, the directors of our general partner and its general partner, have a fiduciary duty to manage the general partner and its general partner in a manner beneficial to the owners of those entities.

Furthermore, if the unitholders are dissatisfied with the performance of our general partner, they will have little ability to remove our general partner. The general partner generally may not be removed except upon the vote of the holders of 662/3% of the outstanding units voting together as a single class, including units owned by the general partner and its affiliates. As of June 30, 2009, ETE and its affiliates held approximately 37% of our outstanding units, with an approximately 1% of units held by our officers and directors. Consequently, it could be difficult to remove the general partner without the consent of the general partner and our affiliates.

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.

The general partner may transfer its general partner interest to a third party in a merger or in a sale of all or substantially all of its assets without the consent of the unitholders. Furthermore, there is no restriction in the partnership agreement on the ability of the general partner of our general partner from transferring its general partner interest in our general partner to a third party. Any new owner 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. Our only significant assets are the equity interests we own in our operating subsidiaries and equity investees. As a result, we depend upon the earnings and cash flow of our operating subsidiaries and equity investees and the distribution of that cash to us in order to meet our obligations and to allow us to make distributions to our partners.

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

Prior to making any distributions to 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

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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 common unitholder is required to agree to be bound by the provisions in the partnership agreement, including the provisions discussed above.

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

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

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

Our partnership agreement requires the general partner to deduct from operating surplus cash reserves that in its reasonable discretion are necessary to fund our future operating expenditures. In addition, the 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, which may permit our general partner to favor its own interests to the detriment of unitholders.

As of June 30, 2009, ETE and its affiliates directly and indirectly owned an aggregate limited partner interest in us of approximately 37% and our officers and directors owned approximately 1% of the limited partner interests in us. Conflicts of interest could arise in the future as a result of relationships between our general partner and its affiliates, on the one hand, and us, on the other hand. As a result of these conflicts our general partner may favor its own interests and those of its affiliates over the interests of the unitholders. The nature of these conflicts includes the following considerations:

Remedies available to unitholders for actions that might, without the limitations, 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 in resolving conflicts of interest, thereby limiting its fiduciary duties to the unitholders.

Our general partner s 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 and reserves, each of which can affect the amount of cash that is distributed to unitholders.

Our general partner determines whether to issue additional units or other equity securities of us.

Our general partner determines which costs are reimbursable by us.

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.

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

The risk of competition with affiliates of our general partner has increased.

Except as provided in our partnership agreement, affiliates of our general partner are not prohibited from engaging in other businesses or activities, including those that might be in direct competition with us. Enterprise GP Holdings, L.P. currently has an approximately 41% non-controlling equity interest in LE GP, LLC, ETE s general partner. Enterprise GP Holdings, L.P. and its subsidiaries own and operate a North American midstream energy business that competes with us with respect to our natural gas midstream business.

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Risks Related to Our Business

We may not be able to obtain funding on acceptable terms or at all under our revolving credit facility or otherwise because of the deterioration of the credit and capital markets. This may hinder or prevent us from meeting our future capital needs.

Global financial markets and economic conditions have been, and continue to be, disrupted and volatile due to a variety of factors, including significant write-offs in the financial services sector and the current weak economic conditions. As a result, the cost of raising money in the debt and equity capital markets has increased substantially while the availability of funds from those markets has diminished significantly. In particular, as a result of concerns about the stability of financial markets generally and the solvency of lending counterparties specifically, the cost of obtaining money from the credit markets generally has increased as many lenders and institutional investors have increased interest rates, enacted tighter lending standards, refused to refinance existing debt on similar terms or at all and reduced, or in some cases ceased, to provide funding to borrowers. In addition, lending counterparties under existing revolving credit facilities and other debt instruments may be unwilling or unable to meet their funding obligations. Due to these factors, we cannot be certain that new debt or equity financing will be available on acceptable terms. If funding is not available when needed, or is available only on unfavorable terms, we may be unable to meet our obligations as they come due or we may be required to post collateral to support our obligations. Moreover, without adequate funding, we may be unable to execute our growth strategy, complete future acquisitions or announced and future pipeline construction projects, take advantage of other business opportunities or respond to competitive pressures, any of which could have a material adverse effect on our revenues and results of operations.

Many of our customers drilling activity levels and spending for transportation on our pipeline system may be impacted by the current deterioration in commodity prices and the credit markets.

Many of our customers finance their drilling activities through cash flow from operations, the incurrence of debt or the issuance of equity. Recently, there has been a significant decline in the credit markets and the availability of credit. Additionally, many of our customers equity values have substantially declined. The combination of a reduction of cash flow resulting from recent declines in natural gas prices, a reduction in borrowing base under reserve-based credit facilities and the lack of availability of debt or equity financing may result in a significant reduction in our customers spending for natural gas drilling activity, which could result in lower volumes being transported on our pipeline systems. For example, a number of our customers have announced reduced drilling capital expenditure budgets for 2009. A significant reduction in drilling activity could have a material adverse effect on our operations.

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

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

We are exposed to claims by third parties related to the claims that were previously brought against us by the FERC.

On July 26, 2007, the FERC issued to us an Order to Show Cause and Notice of Proposed Penalties (the Order and Notice) that contains allegations that we violated FERC rules and regulations. The FERC alleged that we engaged in manipulative or improper trading activities in the Houston Ship Channel, primarily on two dates during the fall of 2005 following the occurrence of Hurricanes Katrina and Rita, as well as on eight other occasions from December 2003 through August 2005, in order to benefit financially from our commodities derivatives positions and from certain of our index-priced physical gas purchases in the Houston Ship Channel. The FERC alleged that during these periods we violated the FERC s then-effective Market Behavior Rule 2, an anti-market manipulation rule promulgated by the FERC under authority of the Natural Gas Act (NGA). The FERC alleges that we violated this rule by artificially suppressing prices that were included in the Platts *Inside FERC* Houston Ship Channel index, published by McGraw-Hill Companies, on which the pricing of many physical natural gas contracts and financial derivatives are based. In its Order and Notice, the FERC also alleged that we manipulated daily prices at the Waha and Permian Hubs in west Texas on two dates. In its Order and Notice, the FERC specified that it was seeking $69.9 million in disgorgement of profits, plus interest, and $82.0 million in civil penalties relating to these market manipulation claims. The FERC specified that it was also seeking to revoke, for a period of 12 months, our blanket marketing authority for sales of natural gas in interstate commerce at market-based prices. In February 2008, the Enforcement Staff also recommended that the FERC pursue market manipulation claims related to our trading activities in October 2005 for November 2005 monthly deliveries, a period not previously covered by FERC s allegations in the Order and Notice, and that we be assessed an additional civil penalty of $25.0 million and be required to disgorge approximately $7.3 million of alleged unjust profits related to this additional month.

On August 26, 2009, we entered into a settlement agreement with the Enforcement Staff with respect to the pending FERC claims against us and on September 21, 2009, the FERC approved the settlement agreement without modification. The agreement resolves all outstanding FERC claims against us and provides that we will make a $5 million payment to the federal government and will establish a $25 million fund for the purpose of settling related third party claims based on or arising out of the market manipulation allegation against us by those third parties that elect to make a claim against the funds, including existing litigation claims as well as any new claims that may be asserted against this fund. Any unused portion of the fund shall be paid to the United States Treasury. The administrative law judge appointed by FERC will determine the validity of any third party claim against this fund. Any party who receives money from this fund will be required to waive all claims against us related to this matter. The claims of third parties that do not elect to pursue the fund are unaffected. Pursuant to the settlement agreement, FERC will make no findings of fact or conclusions of law. In addition, the settlement agreement specifies that we do not admit or concede to any third party any actual or potential fault, wrongdoing or liability in connection with our alleged conduct related to the FERC claims. The settlement agreement also requires us to maintain specified compliance programs and to conduct independent annual audits of such programs for a two-year period.

In addition to the FERC legal action, third parties have asserted claims and may assert additional claims against us and ETE alleging damages related to these matters. In this regard, several natural gas producers and a natural gas marketing company have initiated legal proceedings in Texas state courts against us and ETE for claims related to the FERC claims. These suits contain contract and tort claims relating to alleged manipulation of natural gas prices at the Houston Ship Channel and the Waha Hub in West Texas, as well as the natural gas price indices related to these markets and the Permian Basin natural gas price index during the period from December 2003 through December 2006, and seek unspecified direct, indirect, consequential and exemplary damages. One of the suits against us and ETE contains an additional allegation that we and ETE transported gas in a manner that favored our affiliates and discriminated against the plaintiff, and otherwise artificially affected the market price of gas to other parties in the market. We have moved to compel arbitration and/or contested subject-matter jurisdiction in some of these cases. In one of these cases, the Texas Supreme Court ruled on July 3, 2009 that the state district court erred in ruling that a plaintiff was entitled to pre-arbitration discovery and therefore remanded to the state district court with a direction to rule on our original motion to compel arbitration pursuant to the terms of the arbitration clause in a natural gas contract between us and the plaintiff. This plaintiff has filed a motion with the Texas Supreme Court requesting a rehearing of the ruling.

We have also been served with a complaint from an owner of royalty interests in natural gas producing properties, individually and on behalf of a putative class of similarly situated royalty owners, working interest owners and producer/operators, seeking arbitration to recover damages based on alleged manipulation of natural gas prices at the Houston Ship Channel. We filed an original action in Harris County state court seeking a stay of the arbitration on the ground that the action is not arbitrable, and the state court granted our motion for summary judgement on that issue. This action is currently on appeal before the First Court of Appeals, Houston, Texas.

A consolidated class action complaint has been filed against us in the United States District Court for the Southern District of Texas. This action alleges that we engaged in intentional and unlawful manipulation of the price of natural gas futures and options contracts on the NYMEX in violation of the Commodity Exchange Act (CEA). It is further alleged that during the class period December 29, 2003 to December 31, 2005, we had the market power to manipulate index prices, and that we used this market power to artificially depress the index prices at major natural gas trading hubs, including the Houston Ship Channel, in order to benefit our natural gas physical and financial trading positions, and that we intentionally submitted price and volume trade information to trade publications. This complaint also alleges that we violated the CEA by knowingly aiding and abetting violations of the CEA. The plaintiffs state that this allegedly unlawful depression of index prices by us manipulated the NYMEX prices for natural gas futures and options contracts to artificial levels during the class period, causing unspecified damages to the plaintiffs and all other members of the putative class who sold natural gas futures or who purchased and/or sold natural gas options contracts on NYMEX during the class period. The plaintiffs have requested certification of their suit as a class action and seek unspecified damages, court costs and other appropriate relief. On January 14, 2008, we filed a motion to dismiss this suit on the grounds of failure to allege facts sufficient to state a claim. On March 20, 2008, the plaintiffs filed a second consolidated class action complaint. In response to this new pleading, on May 5, 2008, we filed a motion to dismiss the complaint. On March 26, 2009, the court issued an order dismissing the complaint, with prejudice, for failure to state a claim. On April 9, 2009, the plaintiffs moved for reconsideration of the order dismissing the complaint, and on August 26, 2009, the court denied the plaintiffs motion for reconsideration. On September 28, 2009, these decisions were appealed by the plaintiffs to the United States Court of Appeals for the 5th Circuit.

On March 17, 2008, a second class action complaint was filed against us in the United States District Court for the Southern District of Texas. This action alleges that we engaged in unlawful restraint of trade and intentional monopolization and attempted monopolization of the market for fixed-price natural gas baseload transactions at the Houston Ship Channel from December 2003 through December 2005 in violation of federal antitrust law. The complaint further alleges that during this period we exerted monopoly power to suppress the price for these transactions to non-competitive levels in order to benefit our own physical natural gas positions. The plaintiff has, individually and on behalf of all other similarly situated sellers of physical natural gas, requested certification of its suit as a class action and seeks unspecified treble damages, court costs and other appropriate relief. On May 19, 2008, we filed a motion to dismiss this complaint. On March 26, 2009, the court issued an order dismissing the complaint. The court found that the plaintiffs failed to state a claim on all causes of action and for anti-trust injury, but granted leave to amend. On April 23, 2009, the plaintiffs filed a motion for leave to amend to assert a claim for common law fraud and attached a proposed amended complaint as an exhibit. We opposed the motion and cross-moved to dismiss. On August 7, 2009, the court denied the plaintiff s motion and granted our motion to dismiss the complaint. On September 10, 2009, this decision was appealed by the plaintiff to the United States Court of Appeals for the 5th Circuit.

We are expensing the legal fees, consultants fees and other expenses relating to these matters in the periods in which such expenses are incurred. We record accruals for litigation and other contingencies whenever required by applicable accounting standards. Our existing accruals for litigation and contingencies include an accrual of $20.0 million related to these matters. Based on the terms of the settlement agreement with the FERC described above, we expect that we will increase our accrual for these matters to $30.0 million in the aggregate. While we expect the after-tax cash impact of the settlement to be less than $30.0 million due to tax benefits resulting from the portion of the accrual that is used to satisfy third party claims, we may not be able to realize such tax benefits. Although this accrual covers the $25.0 million required by the settlement agreement to be applied to resolve third party claims, including the existing third party litigation described above, it is possible that the amount we become obliged to pay to resolve third party litigation related to these matters, whether on a negotiated settlement basis or otherwise, will exceed the amount of the new accrual related to these matters. In accordance with applicable accounting standards, we will review the amount of our accrual related to these matters as developments related to these matters occur and we will adjust our accrual if we determine that it is probable that the amount we may ultimately become obliged to pay as a result of the final resolution of these matters is greater than the amount of our accrual for these matters. As our accrual amounts are non-cash, any cash payment of an amount in resolution of these matters would likely be made from cash from operations or borrowings, which payments would reduce our cash available to service our indebtedness either directly or as a result of increased principal and interest payments necessary to service any borrowings incurred to finance such payments. If these payments are substantial, we may experience a material adverse impact on our results of operations and our liquidity.

The profitability of 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 at the 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 the year ended December 31, 2008, the NYMEX settlement price for the prompt month contract ranged from a high of $13.11 per MMBtu to a low of $6.47 per MMBtu. A composite of the Mt. Belvieu average NGLs price based upon our average NGLs composition during the year ended December 31, 2008 ranged from a high of approximately $1.96 per gallon to a low of approximately $0.66 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 and HPL Systems 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 and NGLs, which factors may result in decisions by natural gas producers to reduce production of natural gas during periods of lower prices for natural gas and NGLs or may result in decisions by end users of natural gas and NGLs 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 derivative 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.

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

Fluctuations in energy prices can greatly affect production rates and investments by third parties in the development of new oil and natural gas reserves. Drilling activity and production generally decrease as oil and natural gas prices decrease. We have no control over the level of drilling activity in our areas of operation, the amount of reserves underlying the wells and the rate at which production from a well will decline, sometimes referred to as the decline rate. In addition, we have no control over producers or their production decisions, which are affected by, among other things, prevailing and projected energy prices, demand for hydrocarbons, the level of reserves, geological considerations, governmental regulation and the availability and cost of capital. Natural gas prices have been high in recent years compared to historical periods, but have decreased significantly during the fourth quarter of 2008 and thus far in 2009. This decline in natural gas prices coupled with the effect of illiquid capital markets has led to a decrease in drilling activity in some of our areas of operation.

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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.

5,788

(51,274
)
Earnings (loss) from continuing operations
57,885

(17,995
)

79,748

16,310

Loss from discontinued operations, net of tax
(153
)

(868
)

(28
)

(1,682
)
Net earnings (loss)
57,732

(18,863
)

79,720

14,628

Net loss attributable to noncontrolling interests
1,573

867

5,990

3,261

Net earnings (loss) attributable to IAC shareholders
$
59,305

$
(17,996
)

$
85,710

$
17,889

Per share information attributable to IAC shareholders:

Basic earnings (loss) per share from continuing operations
$
0.72

$
(0.21
)

$
1.03

$
0.24

Diluted earnings (loss) per share from continuing operations
$
0.68

$
(0.21
)

$
0.98

$
0.22

Basic earnings (loss) per share
$
0.72

$
(0.22
)

$
1.03

$
0.22

Diluted earnings (loss) per share
$
0.68

$
(0.22
)

$
0.97

$

0.20

Dividends declared per share
$
0.34

$
0.24

$
0.68

$
0.48

Stock-based compensation expense by function:

Cost of revenue
$
294

$
459

$
539

$
451

Selling and marketing expense
3,119

657

4,842

853

General and administrative expense
20,039

13,707

34,637

21,659

Product development expense
2,497

1,729

4,842

3,202

Total stock-based compensation expense
$
25,949

$
16,552

$
44,860

$
26,165

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

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IAC/INTERACTIVECORP
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(In thousands)			
Net earnings (loss)	$57,732	$(18,863)	$79,720	$14,628
Other comprehensive income (loss), net of tax:				
Change in foreign currency translation adjustment	8,613	(187)	(48,001)	5,190
Change in unrealized gains and losses of available-for-sale securities (net of tax benefits of $126 and $182 for the three and six months ended June 30, 2015, respectively, and net of tax benefits of $865 and $1,438 for the three and six months ended June 30, 2014, respectively)	3,615	(2,139)	4,249	(2,250)
Total other comprehensive income (loss), net of tax	12,228	(2,326)	(43,752)	2,940
Comprehensive income (loss)	69,960	(21,189)	35,968	17,568
Comprehensive loss attributable to noncontrolling interests	2,323	984	7,147	3,461
Comprehensive income (loss) attributable to IAC shareholders	$72,283	$(20,205)	$43,115	$21,029

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

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IAC/INTERACTIVECORP
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
(Unaudited)

		IAC Shareholders' Equity									
	Redeemable Noncontrolling Interests	Common Stock $.001 Par Value $	Common Stock $.001 Par Value Shares	Class B Convertible Common Stock $.001 Par Value $	Class B Convertible Common Stock $.001 Par Value Shares	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total IAC Shareholders' Equity	No… Int…
		(In thousands)									
Balance as of December 31, 2014	$40,427	$252	252,170	$16	16,157	$11,415,617	$325,118	$(87,700)	$(9,661,350)	$1,991,953	$1,1
Net (loss) earnings for the six months ended June 30, 2015	(5,990)	—	—	—	—	—	85,710	—	—	85,710	—
Other comprehensive loss, net of tax	(1,157)	—	—	—	—	—	—	(42,595)	—	(42,595)	—
Stock-based compensation expense	3,509	—	—	—	—	38,189	—	—	—	38,189	—
Issuance of common stock upon exercise of stock options, vesting of restricted stock units and other, net of withholding taxes	—	2	1,471	—	—	(20,668)	—	—	—	(20,666)	—
Income tax benefit related to the exercise of stock options, vesting of restricted stock units and other	—	—	—	—	—	24,636	—	—	—	24,636	—
Dividends	—	—	—	—	—	—	(56,729)	—	—	(56,729)	—
Purchase of treasury stock	—	—	—	—	—	—	—	—	(200,000)	(200,000)	—
Purchase of redeemable noncontrolling	(15,338)	—	—	—	—	—	—	—	—	—	—

interests											
Adjustment of redeemable noncontrolling interests to fair value	5,320	—	—	—	—	(5,320)	—	—	—	(5,320)	—
Transfer from noncontrolling interests to redeemable noncontrolling interests	1,189	—	—	—	—	—	—	—	—	—	(1,1
Other	217	—	—	—	—	208	—	—	—	208	—
Balance as of June 30, 2015	$28,177	$254	253,641	$16	16,157	$11,452,662	$354,099	$(130,295)	$(9,861,350)	$1,815,386	$—

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

IAC/INTERACTIVECORP
CONSOLIDATED STATEMENT OF CASH FLOWS
(Unaudited)

	Six Months Ended June 30,	
	2015	2014
	(In thousands)	
Cash flows from operating activities attributable to continuing operations:		
Net earnings	$79,720	$14,628
Less: loss from discontinued operations, net of tax	(28)	(1,682)
Earnings from continuing operations	79,748	16,310
Adjustments to reconcile earnings from continuing operations to net cash provided by operating activities attributable to continuing operations:		
Stock-based compensation expense	44,860	26,165
Depreciation	31,068	30,075
Amortization of intangibles	26,966	25,385
Excess tax benefits from stock-based awards	(36,465)	(32,889)
Deferred income taxes	7,260	5,849
Impairment of long-term investments	500	64,281
Equity in losses of unconsolidated affiliates	477	8,785
Acquisition-related contingent consideration fair value adjustments	(16,946)	500
Other adjustments, net	8,369	5,362
Changes in assets and liabilities, net of effects of acquisitions:		
Accounts receivable	2,710	(5,718)
Other assets	(6,458)	(19,238)
Accounts payable and other current liabilities	(33,231)	(31,242)
Income taxes payable	(63,304)	29,299
Deferred revenue	40,407	25,851
Other changes in assets and liabilities, net	(182)	(4)
Net cash provided by operating activities attributable to continuing operations	85,779	148,771
Cash flows from investing activities attributable to continuing operations:		