ATLAS PIPELINE PARTNERS LP
Form 10-Q
August 06, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2014

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from __________ to __________

Commission file number: 1-14998

ATLAS PIPELINE PARTNERS, L.P.

(Exact name of registrant as specified in its charter)

DELAWARE **(State or other jurisdiction of** **incorporation or organization)**	**23-3011077** **(I.R.S. Employer** **Identification No.)**
Park Place Corporate Center One **1000 Commerce Drive, 4th Floor** **Pittsburgh, Pennsylvania** **(Address of principal executive office)**	 **15275-1011** **(Zip code)**

Registrant s telephone number, including area code: (877) 950-7473

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer , accelerated filer and smaller reporting company in rule 12b-2 of the Exchange Act.

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

The number of common units of the registrant outstanding on August 4, 2014 was 82,191,639.

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ATLAS PIPELINE PARTNERS, L.P. AND SUBSIDIARIES

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Glossary of Terms

Definitions of terms and acronyms generally used in the energy industry and in this report are as follows:

BPD	Barrels per day. Barrel measurement for a standard US barrel is 42 gallons. Crude oil and condensate are generally reported in barrels.
BTU	British thermal unit, a basic measure of heat energy
Condensate	Liquid hydrocarbons present in casinghead gas that condense within the gathering system and are removed prior to delivery to the gas plant. This product is generally sold on terms more closely tied to crude oil pricing.
EBITDA	Net income (loss) before net interest expense, income taxes, and depreciation and amortization. EBITDA is a non-GAAP measure.
FASB	Financial Accounting Standards Board
Fractionation	The process used to separate an NGL stream into its individual components.
GAAP	Generally Accepted Accounting Principles
G.P.	General Partner or General Partnership
Keep-Whole	A contract with a natural gas producer whereby the plant operator pays for or returns gas having an equivalent BTU content to the gas received at the well-head.
L.P.	Limited Partner or Limited Partnership
MCF	Thousand cubic feet
MCFD	Thousand cubic feet per day
MMBTU	Million British thermal units
MMCFD	Million cubic feet per day
NGL(s)	Natural Gas Liquid(s), primarily ethane, propane, normal butane, isobutane and natural gasoline
Percentage of Proceeds (POP)	A contract with a natural gas producer whereby the plant operator retains a negotiated percentage of the sale proceeds.
Residue gas	The portion of natural gas remaining after natural gas is processed for removal of NGLs and impurities.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ATLAS PIPELINE PARTNERS, L.P. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in thousands)

(Unaudited)

	June 30, 2014	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$ 4,074	$ 4,914
Accounts receivable	254,953	219,297
Current portion of derivative assets		174
Prepaid expenses and other	26,549	17,393
Total current assets	285,576	241,778
Property, plant and equipment, net	2,984,168	2,724,192
Goodwill	365,763	368,572
Intangible assets, net	634,086	696,271
Equity method investment in joint ventures	179,054	248,301
Long-term portion of derivative assets	451	2,270
Other assets, net	43,931	46,461
Total assets	$ 4,493,029	$ 4,327,845
LIABILITIES AND EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 320	$ 524
Accounts payable affiliates	4,302	2,912
Accounts payable	124,074	79,051
Accrued liabilities	52,810	47,449
Accrued interest payable	26,746	26,737
Current portion of derivative liabilities	11,454	11,244
Accrued producer liabilities	179,843	152,309
Total current liabilities	399,549	320,226
Long-term portion of derivative liabilities	216	320
Long-term debt, less current portion	1,654,319	1,706,786
Deferred income taxes, net	32,394	33,290
Other long-term liabilities	7,011	7,318

Commitments and contingencies		
Equity:		
Class D convertible preferred limited partners interests	493,630	450,749
Class E preferred limited partners interests	121,852	
Common limited partners interests	1,666,438	1,703,778
General Partner s interest	45,840	46,118
Total partners capital	2,327,760	2,200,645
Non-controlling interest	71,780	59,260
Total equity	2,399,540	2,259,905
Total liabilities and equity	$ 4,493,029	$ 4,327,845

See accompanying notes to consolidated financial statements

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ATLAS PIPELINE PARTNERS, L.P. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per unit data)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Revenue:				
Natural gas and liquids sales	$ 667,549	$ 491,230	$ 1,330,679	$ 875,078
Transportation, processing and other fees third parties	49,952	40,229	93,334	72,883
Transportation, processing and other fees affiliates	91	77	146	148
Derivative gain (loss), net	(6,367)	27,107	(15,038)	15,024
Other income, net	2,731	2,296	4,839	5,718
Total revenues	713,956	560,939	1,413,960	968,851
Costs and expenses:				
Natural gas and liquids cost of sales	580,885	424,216	1,156,353	749,756
Operating expenses	26,983	24,770	52,111	46,629
General and administrative	17,166	11,296	33,856	23,844
Compensation reimbursement affiliates	1,250	1,250	2,500	2,500
Other (revenues) costs	(20)	18,370	17	18,900
Depreciation and amortization	49,220	46,383	98,459	76,841
Interest	23,059	22,581	46,722	41,267
Total costs and expenses	698,543	548,866	1,390,018	959,737
Equity income (loss) in joint ventures	(3,875)	(472)	(5,753)	1,568
Gain (loss) on asset dispositions	48,465	(1,519)	48,465	(1,519)
Loss on early extinguishment of debt		(19)		(26,601)
Income (loss) before tax	60,003	10,063	66,654	(17,438)
Income tax benefit	(498)	(28)	(896)	(37)
Net income (loss)	60,501	10,091	67,550	(17,401)
Income attributable to non-controlling interests	(3,965)	(1,810)	(6,427)	(3,179)
Preferred unit imputed dividend effect	(11,378)	(6,729)	(22,756)	(6,729)
Preferred unit dividends in kind	(10,406)	(5,341)	(20,125)	(5,341)
Preferred unit dividends	(2,609)		(3,015)	
Net income (loss) attributable to common limited partners and the General Partner	$ 32,143	$ (3,789)	$ 15,227	$ (32,650)

Allocation of net income (loss) attributable to:				
Common limited partner interest	$ 25,740	$ (8,408)	$ 4,296	$ (39,614)
General Partner interest	6,403	4,619	10,931	6,964
	$ 32,143	$ (3,789)	$ 15,227	$ (32,650)
Net income (loss) attributable to common limited partners per unit:				
Basic	$ 0.27	$ (0.11)	$ 0.04	$ (0.57)
Weighted average common limited partner units (basic)	80,979	74,340	80,788	69,520
Diluted	$ 0.27	$ (0.11)	$ 0.04	$ (0.57)
Weighted average common limited partner units (diluted)	96,890	74,340	96,498	69,520

See accompanying notes to consolidated financial statements

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ATLAS PIPELINE PARTNERS, L.P. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EQUITY

(in thousands, except unit data)

(Unaudited)

	Class D Preferred Limited Partner Units	Class E Preferred Limited Partner Units	Common Limited Partner Units	Class D Preferred Limited Partners	Class E Preferred Limited Partners	Common Limited Partners	General Partner	Non-controlling Interest	Total
alance at ecember 31, 013	13,823,869		80,585,148	$ 450,749	$	$ 1,703,778	$ 46,118	$ 59,260	$ 2,259,905
ssuance of nits and eneral Partner apital ontribution		5,060,000	1,462,187		122,258	47,421	985		170,664
ssuance of ommon units nder incentive lans			115,632			91			91
nissued ommon units nder incentive lans						12,731			12,731
istributions aid in kind nits	580,768								
istributions aid						(101,879)	(12,194)		(114,073
istributions ayable					(3,421)				(3,421
ontributions rom on-controlling nterests								7,880	7,880
istributions to on-controlling nterests								(1,787)	(1,787
et income				42,881	3,015	4,296	10,931	6,427	67,550
	14,404,637	5,060,000	82,162,967	$ 493,630	$ 121,852	$ 1,666,438	$ 45,840	$ 71,780	$ 2,399,540

alance at
une 30, 2014

See accompanying notes to consolidated financial statements

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ATLAS PIPELINE PARTNERS, L.P. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(Unaudited)

	Six Months Ended June 30,	
	2014	**2013**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ 67,550	$ (17,401)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	98,459	76,841
Equity (income) loss in joint ventures	5,753	(1,568)
Distributions received from equity method joint ventures	4,200	3,600
Non-cash compensation expense	12,882	7,820
Amortization of deferred finance costs	3,730	3,283
Loss on early extinguishment of debt		26,601
Loss (gain) on asset dispositions	(48,465)	1,519
Income tax benefit	(896)	(37)
Change in operating assets and liabilities:		
Accounts receivable, prepaid expenses and other	(44,604)	(57,274)
Accounts payable and accrued liabilities	37,811	38,982
Accounts payable and accounts receivable affiliates	1,390	(1,933)
Derivative accounts payable and receivable	2,099	(8,712)
Net cash provided by operating activities	139,909	71,721
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(280,579)	(215,709)
Cash paid for business combinations, net of cash received		(1,000,785)
Net proceeds from asset disposition	132,666	
Capital contributions to joint ventures	(1,649)	
Other	(850)	250
Net cash used in investing activities	$ (150,412)	$ (1,216,244)

ATLAS PIPELINE PARTNERS, L.P. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS CONTINUED

(in thousands)

(Unaudited)

	Six Months Ended June 30,	
	2014	**2013**
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings under credit facility	$ 503,500	$ 865,000
Repayments under credit facility	(555,500)	(1,078,000)
Net proceeds from issuance of long term debt		1,028,449
Repayment of long-term debt		(365,822)
Payment of premium on retirement of debt		(25,581)
Payment of deferred financing costs	(350)	(893)
Payment for acquisition-based contingent consideration		(6,000)
Principal payments on capital lease	(333)	(10,578)
Net proceeds from issuance of common and preferred limited partner units	169,679	825,235
General Partner capital contributions	985	17,280
Contributions from non-controlling interest holders	7,880	5,176
Distributions to non-controlling interest holders	(1,787)	(500)
Distributions paid to common limited partners and the General Partner	(114,073)	(91,115)
Other	(338)	(445)
Net cash provided by financing activities	9,663	1,162,206
Net change in cash and cash equivalents	(840)	17,683
Cash and cash equivalents, beginning of period	4,914	3,398
Cash and cash equivalents, end of period	$ 4,074	$ 21,081

See accompanying notes to consolidated financial statements

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ATLAS PIPELINE PARTNERS, L.P. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2014

(Unaudited)

NOTE 1 BASIS OF PRESENTATION

Atlas Pipeline Partners, L.P. (the Partnership) is a publicly-traded (NYSE: APL) Delaware limited partnership engaged in the gathering, processing and treating of natural gas in the mid-continent and southwestern regions of the United States and natural gas gathering services in the Appalachian Basin in the northeastern region of the United States. The Partnership s operations are conducted through subsidiary entities whose equity interests are owned by Atlas Pipeline Operating Partnership, L.P. (the Operating Partnership), a majority-owned subsidiary of the Partnership. At June 30, 2014, Atlas Pipeline Partners GP, LLC (the General Partner) owned a combined 2.0% general partner interest in the consolidated operations of the Partnership, through which it manages and effectively controls both the Partnership and the Operating Partnership. The General Partner is a wholly-owned subsidiary of Atlas Energy, L.P. (ATLS), a publicly-traded limited partnership (NYSE: ATLS). The remaining 98.0% ownership interest in the consolidated operations of the Partnership consists of limited partner interests. At June 30, 2014, the Partnership had 82,162,967 common units outstanding, including 1,641,026 common units held by the General Partner and 4,113,227 common units held by ATLS; 14,404,637 Class D convertible preferred units (Class D Preferred Units) outstanding (see Note 5); and 5,060,000 8.25% Class E cumulative redeemable perpetual preferred units (Class E Preferred Units) outstanding (see Note 5).

The accompanying consolidated financial statements, which are unaudited, except the balance sheet dated December 31, 2013, which is derived from audited financial statements, are presented in accordance with the requirements of Form 10-Q and accounting principles generally accepted in the United States for interim reporting. The accompanying consolidated financial statements and notes thereto do not include all disclosures normally made in financial statements contained in Form 10-K. In management s opinion, all adjustments necessary for a fair presentation of the Partnership s financial position, results of operations and cash flows for the periods disclosed have been made. These interim consolidated financial statements should be read in conjunction with the audited financial statements and notes thereto presented in the Partnership s Annual Report on Form 10-K for the year ended December 31, 2013. Certain amounts in the prior year s consolidated financial statements have been reclassified to conform to the current year presentation. The results of operations for the six month period ended June 30, 2014 may not necessarily be indicative of the results of operations for the full year ending December 31, 2014.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

In addition to matters discussed further within this note, a more thorough discussion of the Partnership s significant accounting policies is included in its audited consolidated financial statements and notes thereto in its Annual Report on Form 10-K for the year ended December 31, 2013.

Principles of Consolidation and Non-Controlling Interest

The consolidated financial statements include the accounts of the Partnership, the Operating Partnership, a variable interest entity of which the Partnership is the primary beneficiary, and the Operating Partnership s wholly-owned and majority-owned subsidiaries. The General Partner s interest in the Operating Partnership is reported as part of its

overall 2.0% general partner interest in the Partnership. All material intercompany transactions have been eliminated.

Comprehensive Income (Loss)

Comprehensive income (loss) includes net income (loss) and all other changes in the equity of a business during a period from transactions and other events and circumstances from non-owner sources that, under GAAP, have not been recognized in the calculation of net income (loss). These changes, other than net income (loss), are referred to as other comprehensive income (loss). The Partnership does not have any type of transaction, which would be included within other comprehensive income (loss), thus comprehensive income (loss) is equal to net income (loss).

Net Income (Loss) Per Common Unit

Basic net income (loss) attributable to common limited partners per unit is computed by dividing net income (loss) attributable to common limited partners by the weighted average number of common limited partner units outstanding during the period. Net income (loss) attributable to common limited partners is determined by deducting net income attributable to participating securities, if applicable, and net income (loss) attributable to the General Partner s and the preferred unitholders interests. The General Partner s interest in net income (loss) is calculated on a quarterly basis based upon its 2.0% general partner interest and incentive distributions to be distributed for the quarter (see Note 5), with a priority allocation of net income to the General Partner s incentive distributions, if any, in accordance with the partnership agreement, and the remaining net income (loss) allocated with respect to the General Partner s and limited partners ownership interests.

The Partnership presents net income (loss) per unit under the two-class method for master limited partnerships, which considers whether the incentive distributions of a master limited partnership represent a participating security when considered in the calculation of earnings per unit under the two-class method. The two-class method considers whether the partnership agreement contains any contractual limitations concerning distributions to the incentive distribution rights that would impact the amount of earnings to allocate to the incentive distribution rights for each reporting period. If distributions are contractually limited to the incentive distribution rights share of currently designated available cash for distributions as defined under the partnership agreement, undistributed earnings in excess of available cash should not be allocated to the incentive distribution rights. Under the two-class method, management of the Partnership believes the partnership agreement contractually limits cash distributions to available cash; therefore, undistributed earnings are not allocated to the incentive distribution rights.

Unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and are included in the computation of earnings per unit pursuant to the two-class method. The Partnership s phantom unit awards, which consist of common units issuable under the terms of its long-term incentive plans and incentive compensation agreements (see Note 15), contain non-forfeitable rights to distribution equivalents of the Partnership. The participation rights result in a non-contingent transfer of value each time the Partnership declares a distribution or distribution equivalent right during the award s vesting period. However, unless the contractual terms of the participating securities require the holders to share in the losses of the entity, net loss is not allocated to the participating securities. Therefore, the net income (loss) utilized in the calculation of net income (loss) per unit must be determined based upon the allocation of only net income to the phantom units on a pro-rata basis.

Class D Preferred Units participate in distributions with the common limited partner units according to a predetermined formula (see Note 5), thus they are considered participating securities and are included in the computation of earnings per unit pursuant to the two-class method. The participation rights result in a non-contingent transfer of value each time the Partnership declares a distribution.

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However, the contractual terms of the Class D Preferred Units do not require the holders to share in the losses of the entity, therefore the net income (loss) utilized in the calculation of net income (loss) per unit must be determined based upon the allocation of only net income to the Class D Preferred Units on a pro-rata basis.

Class E Preferred Units do not participate in distributions with the common limited partner units according to a predetermined formula, but rather receive distributions based upon a set percentage rate (see Note 5), thus they are not considered participating securities. However, income available to common limited partners is reduced by the distributions accumulated for the period on the Class E Preferred Units, whether declared or not since the distributions on Class E Preferred Units are cumulative.

The following is a reconciliation of net income (loss) allocated to the General Partner and common limited partners for purposes of calculating net income (loss) attributable to common limited partners per unit (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net income (loss)	$ 60,501	$ 10,091	$ 67,550	$ (17,401)
Income attributable to non-controlling interests	(3,965)	(1,810)	(6,427)	(3,179)
Preferred unit imputed dividend effect	(11,378)	(6,729)	(22,756)	(6,729)
Preferred unit dividends in kind	(10,406)	(5,341)	(20,125)	(5,341)
Preferred unit dividends	(2,609)		(3,015)	
Net income (loss) attributable to common limited partners and the General Partner	32,143	(3,789)	15,227	(32,650)
General Partner s cash incentive distributions	5,875	4,790	10,843	7,776
General Partner s ownership interest	528	(171)	88	(812)
Net income attributable to the General Partner s ownership interests	6,403	4,619	10,931	6,964
Net income (loss) attributable to common limited partners	25,740	(8,408)	4,296	(39,614)
Net income attributable to participating securities phantom units[1]	440		71	
Net income attributable to participating securities Class D Preferred Units[2]	3,826		635	
Net income attributable to participating securities	4,266		706	
Net income (loss) utilized in the calculation of net loss attributable to common limited partners per unit	$ 21,474	$ (8,408)	$ 3,590	$ (39,614)

(1) Net loss attributable to common limited partners ownership interest is allocated to the phantom units on a pro-rata basis (weighted average phantom units outstanding as a percentage of the sum of the weighted average phantom units and common limited partner units outstanding). For the three and six months ended June 30, 2013, net loss

attributable to common limited partners ownership interest is not allocated to approximately 967,000 and 1,011,000 weighted average phantom units, respectively, because the contractual terms of the phantom units as participating securities do not require the holders to share in the losses of the entity.

(2) Net loss attributable to common limited partners ownership interest is allocated to the Class D Preferred Units on a pro-rata basis (weighted average Class D Preferred Units outstanding, plus a contractual yield premium of 1%, as a percentage of the sum of the weighted average Class D Preferred Units and common limited partner units outstanding). For the three and six months ended June 30, 2013, net loss attributable to common limited partners ownership interest is not allocated to approximately 9,013,000 and 4,531,000 weighted average Class D Preferred Units, respectively, because the contractual terms of the Class D Preferred Units as participating securities do not require the holders to share in the losses of the entity.

Diluted net income (loss) attributable to common limited partners per unit is calculated by dividing net income (loss) attributable to common limited partners, plus income allocable to participating securities, by the sum of the weighted average number of common limited partner units outstanding plus the dilutive effect of outstanding participating securities and the effects of outstanding convertible securities. The phantom units and Class D Preferred Units are participating securities included in the calculation of diluted net income (loss) attributable to common units, due to their participation rights and due to their dilution if converted. The Class E Preferred Units are not participating securities and are not convertible and thus are not included in the units outstanding for calculation of diluted net income (loss) attributable to common limited partners per unit.

The following table sets forth the reconciliation of the Partnership s weighted average number of common limited partner units used to compute basic net income (loss) attributable to common limited partners per unit with those used to compute diluted net income (loss) attributable to common limited partners per unit (in thousands):

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2014	**2013**	**2014**	**2013**
Weighted average number of common limited partner units basic	80,979	74,340	80,788	69,520
Add effect of dilutive securities phantom units[1]	1,654		1,599	
Add effect of convertible preferred limited partner units[2]	14,257		14,111	
Weighted average common limited partner units diluted	96,890	74,340	96,498	69,520

(1) For the three and six months ended June 30, 2013, approximately 967,000 and 1,011,000 weighted average phantom units, respectively, were excluded from the computation of diluted earnings attributable to common limited partners per unit, because the inclusion of such phantom units would have been anti-dilutive.

(2) For the three and six months ended June 30, 2013, approximately 9,013,000 and 4,531,000 weighted average Class D Preferred Units, respectively, were excluded from the computation of diluted net income (loss) attributable to common limited partners as the impact of the conversion would have been anti-dilutive.

Revenue Recognition

The Partnership accrues unbilled revenue and the related purchase costs due to timing differences between the delivery of natural gas, NGLs, and condensate and the receipt of a delivery statement. This revenue is recorded based upon volumetric data from the Partnership s records and management estimates of the related gathering and compression fees and applicable product prices. The Partnership had unbilled revenues at June 30, 2014 and December 31, 2013 of $179.5 million and $134.9 million, respectively, which are included in accounts receivable within its consolidated balance sheets.

Cash and Cash Equivalents

The Partnership considers all highly liquid investments with a remaining maturity of three months or less at the time of purchase to be cash equivalents. These cash equivalents consist principally of temporary investments of cash in short-term money market instruments. Checks outstanding at the end of a period that exceed available cash balances

held at the bank are considered to be book overdrafts and are reclassified to accounts payable. At June 30, 2014 and December 31, 2013, the Partnership reclassified the balances related to book overdrafts of $23.0 million and $28.8 million, respectively, from cash and cash equivalents to accounts payable on the Partnership s consolidated balance sheets.

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Recently Adopted Accounting Standards

In July 2013, the FASB issued Accounting Standard Update (ASU) 2013-11, Income Taxes (Topic 740) Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists, which, among other changes, requires an entity to present an unrecognized tax benefit as a liability and not net with deferred tax assets when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date to settle any additional income taxes under the tax law of the applicable jurisdiction that would result from the disallowance of a tax position or when the tax law of the applicable tax jurisdiction does not require, and the entity does not intend to, use the deferred tax asset for such purpose. These requirements are effective for interim and annual reporting periods beginning after December 15, 2013. Early adoption is permitted. These amendments should be applied prospectively to all unrecognized tax benefits that exist at the effective date. Retrospective application is permitted. The Partnership applied these requirements upon the adoption of the ASU on January 1, 2014. The adoption had no material impact on the Partnership s financial position or results of operations.

Recently Issued Accounting Standards

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). ASU 2014-09 will supersede the revenue recognition requirements in Topic 605 Revenue Recognition , and most industry-specific guidance. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The amendments in ASU 2014-09 are effective for interim and annual reporting periods beginning after December 15, 2016. Early adoption is not permitted. An entity should apply the amendments in this ASU using one of the following methods: (1) retrospectively to each prior reporting period presented, or (2) retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application.

The Partnership will apply these requirements upon the adoption of ASU 2014-09 on January 1, 2017. The Partnership is currently in the process of evaluating which method to use for application of ASU 2014-09 and is still determining the impacts of ASU 2014-09 on its financial position, results of operations and disclosures.

NOTE 3 ACQUISITIONS

On May 7, 2013, the Partnership completed the acquisition of 100% of the equity interests of TEAK Midstream, LLC (TEAK) for $974.7 million in cash, including final purchase price adjustments, less cash received (the TEAK Acquisition). The assets of these companies include gas gathering and processing facilities in Texas. The acquisition included a 75% interest in T2 LaSalle Gathering Company L.L.C. (T2 LaSalle); a 50% interest in T2 Eagle Ford Gathering Company L.L.C. (T2 Eagle Ford); and a 50% interest in T2 EF Cogeneration Holdings L.L.C. (T2 Co-Gen and together with T2 Eagle Ford and T2 LaSalle, the T2 Joint Ventures).

The Partnership accounted for this transaction as a business combination. Accordingly, the Partnership evaluated the identifiable assets acquired and liabilities assumed at their acquisition date fair values. The following table presents the values assigned to the assets acquired and liabilities assumed in the TEAK Acquisition, based on their final estimated fair values at the date of the acquisition (in thousands):

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Cash	$ 8,074
Accounts receivable	11,055
Prepaid expenses and other	1,626
Property, plant and equipment	197,683
Intangible assets	430,000
Goodwill	186,050
Equity method investment in joint ventures	184,327
Total assets acquired	1,018,815
Accounts payable and accrued liabilities	(34,995)
Other long term liabilities	(1,075)
Total liabilities acquired	(36,070)
Net assets acquired	**982,745**
Less cash received	(8,074)
Net cash paid for acquisition	**$ 974,671**

NOTE 4 EQUITY METHOD INVESTMENTS

West Texas LPG Pipeline Limited Partnership

On May 14, 2014, the Partnership completed the sale of two indirect subsidiaries, which held an aggregate 20% interest in West Texas LPG Pipeline Limited Partnership (WTLPG), to a subsidiary of Martin Midstream Partners L.P. (NYSE: MMLP). The Partnership received $132.7 million in proceeds, net of selling costs, which were used to pay down the Partnership s revolving credit facility (see Note 13). As a result of the sale, the Partnership recorded a $48.5 million gain on asset dispositions on its consolidated statements of operations for the three and six months ended June 30, 2014.

WTLPG owns a common-carrier pipeline system that transports NGLs from New Mexico and Texas to Mont Belvieu, Texas for fractionation. WTLPG is operated by Chevron Pipeline Company, an affiliate of Chevron Corporation, a Delaware corporation (NYSE: CVX), which owns the remaining 80% interest. The Partnership accounted for its subsidiaries ownership interest in WTLPG under the equity method of accounting, with recognition of income of WTLPG as equity income in joint ventures on its consolidated statements of operations.

T2 Joint Ventures

On May 7, 2013, the Partnership acquired a 75% interest in T2 LaSalle, a 50% interest in T2 Eagle Ford and a 50% interest in T2 EF Co-Gen as part of the TEAK Acquisition (see Note 3). The T2 Joint Ventures are operated by TexStar Midstream Services, L.P. (TexStar), the investor owning the remaining interests. The T2 Joint Ventures were formed to provide services for the benefit of the joint interest owners. The T2 Joint Ventures have capacity lease agreements with the joint interest owners, which cover the costs of operations of the T2 Joint Ventures. The Partnership accounts for its investments in the joint ventures under the equity method of accounting.

The Partnership evaluated whether the T2 Joint Ventures should be subject to consolidation. The T2 Joint Ventures do meet the qualifications of a Variable Interest Entity (VIE), but the Partnership does not meet the qualifications as the

primary beneficiary. Even though the Partnership owns a 50% or

greater interest in the T2 Joint Ventures, the Partnership does not have controlling financial interests in these entities. Since the Partnership shares equal management rights with TexStar, and TexStar is the operator of the T2 Joint Ventures, the Partnership determined that it is not the primary beneficiary of the VIEs and should not consolidate the T2 Joint Ventures. The Partnership accounts for its investment in the T2 Joint Ventures under the equity method, since the Partnership does not have a controlling financial interest, but does have a significant influence. The Partnership s maximum exposure to loss as a result of its involvement with the VIEs includes its equity investment, any additional capital contribution commitments and the Partnership s share of any approved operating expenses incurred by the VIEs.

The following table presents the value of the Partnership s equity method investments in joint ventures as of June 30, 2014 and December 31, 2013 (in thousands):

	June 30, 2014	December 31, 2013
WTLPG	$	$ 85,790
T2 LaSalle	57,578	50,534
T2 Eagle Ford	107,314	97,437
T2 EF Co-Gen	14,162	14,540
Equity method investment in joint ventures	$ 179,054	$ 248,301

The following table presents the Partnership s equity income (loss) in joint ventures for the three and six months ended June 30, 2014 and 2013 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
WTLPG	$ 884	$ 1,687	$ 2,611	$ 3,727
T2 LaSalle	(1,364)	(898)	(2,477)	(898)
T2 Eagle Ford	(2,693)	(1,078)	(4,738)	(1,078)
T2 EF Co-Gen	(702)	(183)	(1,149)	(183)
Equity income (loss) in joint ventures	$ (3,875)	$ (472)	$ (5,753)	$ 1,568

NOTE 5 EQUITY

Common Units

On May 12, 2014, the Partnership entered into an Equity Distribution Agreement (the 2014 EDA) with Citigroup Global Markets Inc. (Citigroup), Wells Fargo Securities, LLC and MLV & Co. LLC (together, the Sales Agents). Pursuant to the 2014 EDA, the Partnership may offer and sell from time to time through its Sales Agents, common units having an aggregate value up to $250.0 million. Sales are at market prices prevailing at the time of the sale.

In November 2012, the Partnership entered into an Equity Distribution Agreement (the 2012 EDA , and together with the 2014 EDA, the EDAs) with Citigroup. Pursuant to this program, the Partnership offered and sold through Citigroup, as its sales agent, common units for $150.0 million. The Partnership used the full capacity under the 2012 EDA during the year ended 2013.

During the three months ended June 30, 2014 and 2013, the Partnership issued 1,462,187 and 642,495 common units, respectively, under the EDAs for net proceeds of $47.4 million and $24.5 million,

respectively, net of $0.5 million and $0.5 million, respectively, in commissions paid to the Sales Agents. During the six months ended June 30, 2014 and 2013, the Partnership issued 1,462,187 and 1,090,280 common units, respectively, under the EDAs for net proceeds of $47.4 million and $38.9 million, respectively, net of $0.5 million and $0.8 million, respectively, in commissions paid to the Sales Agents. The Partnership also received capital contributions from the General Partner of $1.0 million and $0.5 million, respectively, during the three months ended June 30, 2014 and 2013, and $1.0 million and $0.8 million, respectively, during the six months ended June 30, 2014 and 2013, to maintain its 2.0% general partner interest in the Partnership. The net proceeds from the common unit offerings were utilized for general partnership purposes.

Cash Distributions

The Partnership is required to distribute, within 45 days after the end of each quarter, all its available cash (as defined in its partnership agreement) for that quarter to its common unitholders (subject to the rights of any other class or series of the Partnership s securities with the right to share in the Partnership s cash distributions) and to the General Partner. If common unit distributions in any quarter exceed specified target levels, the General Partner will receive between 15% and 50% of such distributions in excess of the specified target levels, including the General Partner s 2.0% interest. The General Partner, which holds all the incentive distribution rights in the Partnership, has agreed to allocate up to $3.75 million of its incentive distribution rights per quarter back to the Partnership after the General Partner receives the initial $7.0 million per quarter of incentive distribution rights.

Common unit and General Partner distributions declared by the Partnership for quarters ending from March 31, 2013 through March 31, 2014 were as follows:

For Quarter Ended	Date Cash Distribution Paid	Cash Distribution Per Common Limited Partner Unit	Total Cash Distribution to Common Limited Partners (in thousands)	Total Cash Distribution to the General Partner (in thousands)
March 31, 2013	May 15, 2013	$ 0.59	$ 45,382	$ 3,980
June 30, 2013	August 14, 2013	0.62	48,165	5,875
September 30, 2013	November 14, 2013	0.62	49,298	6,013
December 31, 2013	February 14, 2014	0.62	49,969	6,095
March 31, 2014	May 15, 2014	0.62	49,998	6,099

On July 23, 2014, the Partnership declared a cash distribution of $0.63 per unit on its outstanding common limited partner units, representing the cash distribution for the quarter ended June 30, 2014. The $58.8 million distribution, including $7.1 million to the General Partner for its general partner interest and incentive distribution rights, will be paid on August 14, 2014 to unitholders of record at the close of business on August 7, 2014.

Class D Preferred Units

The Partnership s Class D Preferred Units are presented combined with a net $38.8 million unaccreted beneficial conversion discount on the Partnership s consolidated balance sheets as of June 30, 2014. The Partnership recorded $11.4 million and $6.7 million for the three months ended June 30, 2014 and 2013, respectively, and $22.8 million and $6.7 million for the six months ended June 30, 2014 and 2013, respectively, within preferred unit imputed

dividend effect on the Partnership s consolidated statements of operations to recognize the accretion of the beneficial conversion discount.

The Class D Preferred Units will receive distributions of additional Class D Preferred Units for the first four full quarterly periods following their issuance in May 2013, and thereafter will receive distributions in Class D Preferred Units, or cash, or a combination of Class D Preferred Units and cash, at the discretion of the General Partner. The Partnership recorded Class D Preferred Unit distributions in kind of $10.4 million and $5.3 million for the three months ended June 30, 2014 and 2013, respectively, and $20.1 million and $5.3 million for the six months ended June 30, 2014 and 2013, respectively, as preferred unit dividends in kind on the Partnership s consolidated statements of operations. During the three and six months ended June 30, 2014, the Partnership distributed 305,983 and 580,768, respectively, Class D Preferred Units to the holders of the Class D Preferred Units. The Partnership did not distribute any Class D Preferred Units during the three and six months ended June 30, 2013. The Partnership considers preferred unit distributions paid in kind to be a non-cash financing activity.

On July 23, 2014, the Partnership declared a cash distribution of $0.63 per unit on its outstanding common limited partner units, representing the cash distribution for the quarter ended June 30, 2014. Based on this declaration, on August 14, 2014, the Partnership will issue approximately 305,000 Class D Preferred Units as a preferred unit distribution in kind for the quarter ended June 30, 2014 to the preferred unitholders of record at the close of business on August 7, 2014.

Class E Preferred Units

On March 17, 2014, the Partnership issued 5,060,000 of its Class E Preferred Units to the public at an offering price of $25.00 per Class E Preferred Unit. The Partnership received $122.3 million in net proceeds. The proceeds were used to pay down the Partnership s revolving credit facility.

The Partnership will make cumulative cash distributions on the Class E Preferred Units from the date of original issue. The cash distributions will be payable quarterly in arrears on January 15, April 15, July 15, and October 15 of each year, when, and if, declared by the board of directors. The initial distribution on the Class E Preferred Units was paid on July 15, 2014 in an amount equal to $0.67604 per unit, or approximately $3.4 million, representing the distribution for the period March 17, 2014 to July 14, 2014. Going forward, the Partnership will pay cumulative distributions in cash on the Class E Preferred Units on a quarterly basis at a rate of $0.515625 per unit, or 8.25% per year. For the three and six months ended June 30, 2014, the Partnership allocated net income of $2.6 million and $3.0 million, respectively, to the Class E Preferred Units for the dividends earned during the period, which was recorded as preferred unit dividends on its consolidated statements of operations.

At any time on or after March 17, 2019, or in the event of a liquidation or certain changes of control, the Partnership may redeem the Class E Preferred Units, in whole or in part, at a redemption price of $25.00 per unit plus an amount equal to all accumulated and unpaid distributions on the date of redemption, whether or not declared. If the Partnership does not exercise this redemption right upon a change of control, then the holders of the Class E Preferred Units will have the option to convert their Class E Preferred Units into a number of the Partnership s common units, as set forth in the Certificate of Designation relating to the Class E Preferred Units.

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NOTE 6 PROPERTY, PLANT AND EQUIPMENT

The following is a summary of property, plant and equipment, including leased property and equipment meeting capital lease criteria (see Note 13) (in thousands):

	June 30, 2014	December 31, 2013	Estimated Useful Lives in Years
Pipelines, processing and compression facilities	$ 3,202,816	$ 2,885,303	2 40
Rights of way	201,860	203,136	20 40
Buildings	10,447	10,291	40
Furniture and equipment	13,811	13,800	3 7
Other	15,165	15,805	3 10
	3,444,099	3,128,335	
Less accumulated depreciation	(459,931)	(404,143)	
	$ 2,984,168	$ 2,724,192	

The Partnership recorded depreciation expense on property, plant and equipment, including capital lease arrangements (see Note 13), of $28.5 million and $24.2 million for the three months ended June 30, 2014 and 2013, respectively, and $56.3 million and $46.5 million for the six months ended June 30, 2014 and 2013, respectively, on its consolidated statements of operations.

The Partnership capitalizes interest on borrowed funds related to capital projects only for periods that activities are in progress to bring these projects to their intended use. The weighted average interest rate used to capitalize interest on borrowed funds was 5.6% and 5.8% for the three months ended June 30, 2014 and 2013, respectively, and 5.6% and 6.0% for the six months ended June 30, 2014 and 2013, respectively. The amount of interest capitalized was $3.2 million and $1.3 million for the three months ended June 30, 2014 and 2013, respectively, and $6.1 million and $3.8 million for the six months ended June 30, 2014 and 2013, respectively.

NOTE 7 GOODWILL AND INTANGIBLE ASSETS

Goodwill is the cost of an acquisition less the fair value of the net identifiable assets of the acquired business. Impairment testing for goodwill is done at the reporting unit level. A reporting unit is an operating segment or one level below an operating segment (also known as a component). The Partnership evaluates goodwill for impairment annually, on December 31, for all reporting units, except SouthTX, which is evaluated on April 30. The Partnership tested the SouthTX reporting unit goodwill for impairment as of April 30, 2014. The results indicated the fair value of the SouthTX reporting unit was higher than its carrying value, and thus, goodwill recorded on the SouthTX reporting unit was not impaired as of April 30, 2014. The following table reflects the carrying amounts of goodwill by reporting unit at June 30, 2014 and December 31, 2013 (in thousands):

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	June 30, 2014	December 31, 2013
Carrying amount of goodwill by reporting unit:		
Barnett system	$ 951	$ 951
SouthOK system	170,381	170,381
SouthTX system	186,050	188,859
WestOK system	8,381	8,381
	$ 365,763	$ 368,572

The change in goodwill is related to a $2.8 million decrease in goodwill related to an adjustment of the fair value of assets acquired and liabilities assumed from the TEAK Acquisition (See Note 3). The Partnership expects all goodwill recorded to be deductible for tax purposes.

The Partnership has recorded intangible assets with finite lives in connection with certain consummated acquisitions. The following table reflects the components of intangible assets being amortized at June 30, 2014 and December 31, 2013 (in thousands):

	June 30, 2014	December 31, 2013	Estimated Useful Lives In Years
Gross carrying amount:			
Customer contracts	$ 3,419	$ 3,419	2 10
Customer relationships	867,653	887,653	7 15
	871,072	891,072	
Accumulated amortization:			
Customer contracts	(1,030)	(779)	
Customer relationships	(235,956)	(194,022)	
	(236,986)	(194,801)	
Net carrying amount:			
Customer contracts	2,389	2,640	
Customer relationships	631,697	693,631	
Net carrying amount	$ 634,086	$ 696,271	

The weighted-average amortization period for customer contracts and customer relationships, as of June 30, 2014, is 9.7 years and 11.5 years, respectively. The Partnership recorded amortization expense on intangible assets of $20.7 million and $22.2 million for the three months ended June 30, 2014 and 2013, respectively, and $42.2 million and $30.3 million for the six months ended June 30, 2014 and 2013, respectively, on its consolidated statements of operations. Amortization expense related to intangible assets is estimated to be as follows for each of the next five calendar years: remainder of 2014 $37.8 million; 2015 through 2016 $74.0 million per year; 2017 $68.0 million per year; 2018 $59.5 million.

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NOTE 8 OTHER ASSETS

The following is a summary of other assets (in thousands):

	June 30, 2014	December 31, 2013
Deferred finance costs, net of accumulated amortization of $25,764 and $22,034 at June 30, 2014 and December 31 2013, respectively	$ 37,714	$ 41,094
Security deposits	6,217	5,367
	$ 43,931	$ 46,461

Deferred finance costs are recorded at cost and amortized over the term of the respective debt agreement (see Note 13). The Partnership incurred $0.1 million and $9.4 million of deferred finance costs during the three months ended June 30, 2014 and 2013, respectively, and $0.3 million and $22.4 million deferred finance costs during the six months ended June 30, 2014 and 2013, respectively, related to various financing activities (see Note 13).

During the six months ended June 30, 2013, the Partnership redeemed all of its outstanding $365.8 million 8.75% unsecured senior notes due June 15, 2018 (8.75% Senior Notes) (see Note 13) and recognized $5.3 million of accelerated amortization of deferred financing costs, included in loss on early extinguishment of debt on the Partnership s consolidated statement of operations. There was no accelerated amortization of deferred financing costs during the six months ended June 30, 2014. Amortization expense of deferred finance costs, excluding accelerated amortization expense, was $1.9 million and $1.7 million for the three months ended June 30, 2014 and 2013, respectively, and $3.7 million and $3.3 million for the six months ended June 30, 2014 and 2013, respectively, which is recorded within interest expense on the Partnership s consolidated statements of operations.

NOTE 9 INCOME TAXES

The Partnership owns APL Arkoma, Inc., a taxable subsidiary. The components of the federal and state income tax benefit of the Partnership s taxable subsidiary for the three and six months ended June 30, 2014 and 2013 are summarized as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Income tax benefit:				
Federal	$ (446)	$ (25)	$ (803)	$ (33)
State	(52)	(3)	(93)	(4)
Total income tax benefit	$ (498)	$ (28)	$ (896)	$ (37)

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The components of net deferred tax liabilities as of June 30, 2014 and December 31, 2013 consist of the following (in thousands):

	June 30, 2014	December 31, 2013
Deferred tax assets:		
Net operating loss tax carryforwards and alternative minimum tax credits	$ 16,198	$ 14,900
Deferred tax liabilities:		
Excess of asset carrying value over tax basis	(48,592)	(48,190)
Net deferred tax liabilities	$ (32,394)	$ (33,290)

As of June 30, 2014, the Partnership had net operating loss carry forwards for federal income tax purposes of approximately $41.9 million, which expire at various dates from 2029 to 2034. Management of the General Partner believes it more likely than not that the deferred tax asset will be fully utilized.

NOTE 10 DERIVATIVE INSTRUMENTS

The Partnership uses derivative instruments in connection with its commodity price risk management activities. The Partnership uses financial swap and option instruments to hedge its forecasted natural gas, NGLs and condensate sales against the variability in expected future cash flows attributable to changes in market prices. Changes in fair value of derivatives are recognized immediately within derivative gain (loss), net in its consolidated statements of operations. Due to the right of setoff, derivatives are recorded on the Partnership s consolidated balance sheets as assets or liabilities at fair value on the basis of the net exposure to each counterparty.

The following tables summarize the Partnership s gross fair values of its derivative instruments, presenting the impact of offsetting derivative assets and liabilities on the Partnership s consolidated balance sheets for the periods indicated (in thousands):

Offsetting of Derivative Assets

	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Consolidated Balance Sheets	Net Amounts of Assets Presented in the Consolidated Balance Sheets
As of June 30, 2014:			
Long-term portion of derivative assets	$ 1,365	$ (914)	$ 451
Current portion of derivative liabilities	2,478	(2,478)	
Long-term portion of derivative liabilities	1,651	(1,651)	

Total derivative assets, net	$ 5,494	$ (5,043)	$ 451
As of December 31, 2013:			
Current portion of derivative assets	$ 1,310	$ (1,136)	$ 174
Long-term portion of derivative assets	5,082	(2,812)	2,270
Current portion of derivative liabilities	1,612	(1,612)	
Long-term portion of derivative liabilities	949	(949)	
Total derivative assets, net	$ 8,953	$ (6,509)	$ 2,444

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Offsetting of Derivative Liabilities

	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Consolidated Balance Sheets	Net Amounts of Liabilities Presented in the Consolidated Balance Sheets
As of June 30, 2014:			
Long-term portion of derivative assets	$ (914)	$ 914	$
Current portion of derivative liabilities	(13,932)	2,478	(11,454)
Long-term portion of derivative liabilities	(1,867)	1,651	(216)
Total derivative liabilities, net	$ (16,713)	$ 5,043	$ (11,670)
As of December 31, 2013:			
Current portion of derivative assets	$ (1,136)	$ 1,136	$
Long-term portion of derivative assets	(2,812)	2,812	
Current portion of derivative liabilities	(12,856)	1,612	(11,244)
Long-term portion of derivative liabilities	(1,269)	949	(320)
Total derivative liabilities, net	$ (18,073)	$ 6,509	$ (11,564)

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The following table summarizes the Partnership s commodity derivatives as of June 30, 2014, (fair value and volumes in thousands):

Production Period	Commodity	Volumes[1]	Average Fixed Price ($/Volume)	Fair Value[2] Asset/ (Liability)
Sold fixed price swaps				
2014	Natural gas	10,400	$ 4.11	$ (3,611)
2015	Natural gas	19,510	4.27	495
2016	Natural gas	8,100	4.28	48
2017	Natural gas	1,200	4.47	(72)
2014	NGLs	38,052	1.24	(3,132)
2015	NGLs	68,166	1.21	(2,472)
2016	NGLs	9,450	1.03	(84)
2014	Crude oil	159	92.09	(1,828)
2015	Crude oil	210	90.26	(1,597)
2016	Crude oil	30	90.00	(73)
Total fixed price swaps				(12,326)
Purchased put options				
2014	Natural gas	200	4.15	11
2014	NGLs	5,040	0.96	51
2015	NGLs	3,150	0.94	88
2014	Crude oil	207	90.85	120
2015	Crude oil	270	89.18	866
Sold call options				
2014	NGLs	2,520	1.32	(5)
2015	NGLs	1,260	1.28	(24)
Total options				1,107
Total derivatives				$ (11,219)

(1) NGL volumes are stated in gallons. Crude oil volumes are stated in barrels. Natural gas volumes are stated in MMBTUs.
(2) See Note 11 for discussion on fair value methodology.

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The following table summarizes the gross effect of all derivative instruments on the Partnership s consolidated statements of operations for the periods indicated (in thousands):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2014	2013	2014	2013
Derivatives not designated as hedges				
Gain (loss) recognized in derivative gain (loss), net:				
Commodity contract realized[1]	$ (6,619)	$ 2,844	$ (16,454)	$ 4,480
Commodity contract unrealized[2]	252	24,263	1,416	10,544
Derivative gain (loss), net	$ (6,367)	$ 27,107	$ (15,038)	$ 15,024

(1) Realized gain (loss) represents the gain or loss incurred when the derivative contract expires and/or is cash settled.

(2) Unrealized gain represents the mark-to-market gain recognized on open derivative contracts, which have not yet settled.

NOTE 11 FAIR VALUE OF FINANCIAL INSTRUMENTS

The Partnership uses a valuation framework based upon inputs that market participants use in pricing an asset or liability, which are classified into two categories: observable inputs and unobservable inputs. Observable inputs represent market data obtained from independent sources; whereas, unobservable inputs reflect the Partnership s own market assumptions, which are used if observable inputs are not reasonably available without undue cost and effort. These two types of inputs are further prioritized into the following hierarchy:

Level 1 Unadjusted quoted prices in active markets for identical, unrestricted assets and liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 Inputs other than quoted prices included within Level 1 that are observable for the asset and liability or can be corroborated with observable market data for substantially the entire contractual term of the asset or liability.

Level 3 Unobservable inputs that reflect the entity s own assumptions about the assumptions market participants would use in the pricing of the asset or liability and are consequently not based on market activity but rather through particular valuation techniques.

Derivative Instruments

At June 30, 2014, the valuations for all the Partnership s derivative contracts are defined as Level 2 assets and liabilities within the same class of nature and risk, with the exception of the Partnership s NGL fixed price swaps and NGL options, which are defined as Level 3 assets and liabilities within the same class of nature and risk.

The Partnership s Level 2 commodity derivatives include natural gas and crude oil swaps and options, which are calculated based upon observable market data related to the change in price of the underlying commodity. These

swaps and options are calculated by utilizing the New York Mercantile Exchange (NYMEX) quoted prices for futures and option contracts traded on NYMEX that coincide with the underlying commodity, expiration period, strike price (if applicable) and pricing formula utilized in the derivative instrument.

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Valuations for the Partnership s NGL options are based on forward price curves developed by financial institutions, and therefore are defined as Level 3. The NGL options are over-the-counter instruments that are not actively traded in an open market, thus the Partnership utilizes the valuations provided by the financial institutions that provide the NGL options for trade. The Partnership tests these valuations for reasonableness through the use of an internal valuation model.

Valuations for the Partnership s NGL fixed price swaps are based on forward price curves provided by a third party, which the Partnership considers to be Level 3 inputs. The prices are adjusted based upon the relationship between the prices for the product/locations quoted by the third party and the underlying product/locations utilized for the swap contracts, as determined by a regression model of the historical settlement prices for the different product/locations. The regression model is recalculated on a quarterly basis. This adjustment is an unobservable Level 3 input. The NGL fixed price swaps are over-the-counter instruments which are not actively traded in an open market. However, the prices for the underlying products and locations do have a direct correlation to the prices for the products and locations provided by the third party, which are based upon trading activity for the products and locations quoted. A change in the relationship between these prices would have a direct impact upon the unobservable adjustment utilized to calculate the fair value of the NGL fixed price swaps.

The following table represents the Partnership s derivative assets and liabilities recorded at fair value as of June 30, 2014 and December 31, 2013 (in thousands):

	Level 1	Level 2	Level 3	Total
June 30, 2014				
Assets				
Commodity swaps	$	$ 2,595	$ 1,763	$ 4,358
Commodity options		997	139	1,136
Total assets		3,592	1,902	5,494
Liabilities				
Commodity swaps		(9,233)	(7,451)	(16,684)
Commodity options			(29)	(29)
Total liabilities		(9,233)	(7,480)	(16,713)
Total derivatives	$	$ (5,641)	$ (5,578)	$ (11,219)
December 31, 2013				
Assets				
Commodity swaps	$	$ 2,994	$ 1,412	$ 4,406
Commodity options		4,337	210	4,547
Total assets		7,331	1,622	8,953
Liabilities				
Commodity swaps		(4,695)	(13,378)	(18,073)

Total liabilities		(4,695)	(13,378)	(18,073)
Total derivatives	$	$ 2,636	$ (11,756)	$ (9,120)

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The Partnership s Level 3 fair value amount relates to its derivative contracts on NGL fixed price swaps and NGL options. The following table provides a summary of changes in fair value of the Partnership s Level 3 derivative instruments for the six months ended June 30, 2014 (in thousands):

	NGL Fixed Price Swaps		NGL Put Options		NGL Call Options		Total
	Gallons	Amount	Gallons	Amount	Gallons	Amount	Amount
Balance December 31, 2013	130,158	$ (11,966)	6,300	$ 210		$	$ (11,756)
New contracts[1]	31,626		5,040	200	5,040	(200)	
Cash settlements from unrealized gain (loss)[2][3]	(46,116)	8,447	(3,150)	225	(1,260)	(20)	8,652
Net change in unrealized gain (loss)[2]		(2,169)		(271)		171	(2,269)
Deferred option premium recognition[3]				(225)		20	(205)
Balance June 30, 2014	115,668	$ (5,688)	8,190	$ 139	3,780	$ (29)	$ (5,578)

(1) Swaps are entered into with no value on the date of trade. Options include premiums paid, which are included in the value of the derivatives on the date of trade.
(2) Included within derivative gain (loss), net on the Partnership s consolidated statements of operations.
(3) Includes option premium cost reclassified from unrealized gain (loss) to realized gain (loss) at time of option expiration.

The following table provides a summary of the unobservable inputs used in the fair value measurement of the Partnership s NGL fixed price swaps at June 30, 2014 and December 31, 2013 (in thousands):

	Gallons	Third Party Quotes[1]	Adjustments[2]	Total Amount
As of June 30, 2014				
Propane swaps	89,460	$ (5,008)	$	$ (5,008)
Isobutane swaps	2,520	(767)	313	(454)
Normal butane swaps	2,520	342	85	427
Natural gasoline swaps	21,168	539	(1,192)	(653)
Total NGL swaps June 30, 2014	115,668	$ (4,894)	$ (794)	$ (5,688)
As of December 31, 2013				
Propane swaps	100,296	$ (10,260)	$	$ (10,260)
Isobutane swaps	6,300	(2,342)	955	(1,387)
Normal butane swaps	7,560	40	322	362
Natural gasoline swaps	16,002	132	(813)	(681)

Total NGL swaps	December 31, 2013	130,158	$	(12,430)	$	464	$	(11,966)

(1) Based upon the difference between the quoted market price provided by the third party and the fixed price of the swap.

(2) Product and location basis differentials calculated through the use of a regression model, which compares the difference between the settlement prices for the products and locations quoted by the third party and the settlement prices for the actual products and locations underlying the derivatives, using a three year historical period.

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The following table provides a summary of the regression coefficient utilized in the calculation of the unobservable inputs for the Level 3 fair value measurements for the NGL fixed price swaps for the periods indicated (in thousands):

	Level 3 NGL Swap Fair Value Adjustments	Adjustment based upon Regression Coefficient		
		Lower 95%	Upper 95%	Average
As of June 30, 2014:				
Isobutane	$ 313	1.1090	1.1194	1.1142
Normal butane	85	1.0292	1.0329	1.0311
Natural gasoline	(1,192)	0.9695	0.9726	0.9711
Total Level 3 adjustments June 30, 2014	$ (794)			
As of December 31, 2013:				
Isobutane	$ 955	1.1184	1.1284	1.1234
Normal butane	322	1.0341	1.0386	1.0364
Natural gasoline	(813)	0.9727	0.9751	0.9739
Total Level 3 adjustments December 31, 2013	$ 464			

NGL Linefill

The Partnership had $23.4 million and $14.5 million of NGL linefill at June 30, 2014 and December 31, 2013, respectively, which was included within prepaid expenses and other on its consolidated balance sheets. The NGL linefill represents amounts receivable for NGLs delivered to counterparties, for which the counterparty will pay at a designated later period at a price determined by the then market price. The Partnership s NGL linefill held by some counterparties will be settled at various periods in the future and is defined as a Level 3 asset, which is valued using the same forward price curve utilized to value the Partnership s NGL fixed price swaps. The product/location adjustment based upon the multiple regression analysis, which was included in the value of the linefill, was a reduction of $0.4 million and $0.4 million as of June 30, 2014 and December 31, 2013, respectively. The Partnership s NGL linefill held by other counterparties is adjusted on a monthly basis according to the volumes delivered to the counterparties each period and is valued on a first in first out (FIFO) basis.

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The following table provides a summary of changes in fair value of the Partnership s NGL linefill for the six months ended June 30, 2014 (in thousands):

	Linefill Valued at Market		Linefill Valued on FIFO		Total NGL Linefill	
	Gallons	Amount	Gallons	Amount	Gallons	Amount
Balance December 31, 2013	5,788	$ 4,738	11,538	$ 9,778	17,326	$ 14,516
Deliveries into NGL linefill	1,050	1,013	42,604	31,549	43,654	32,562
NGL linefill sales			(34,557)	(23,725)	(34,557)	(23,725)
Net change in NGL linefill valuation(1)		94				94
Balance June 30, 2014	6,838	$ 5,845	19,585	$ 17,602	26,423	$ 23,447

(1) Included within natural gas and liquids sales on the Partnership s consolidated statements of operations.

Contingent Consideration

In February 2012, the Partnership acquired a gas gathering system and related assets for an initial net purchase price of $19.0 million. The Partnership agreed to pay up to an additional $12.0 million in contingent payments, payable in two equal amounts, if certain volumes are achieved on the acquired gathering system within a specified time period. Sufficient volumes were achieved in December 2012 and the Partnership paid the first contingent payment of $6.0 million in January 2013. As of June 30, 2014, the fair value of the remaining contingent payment resulted in a $6.0 million long term liability, which was recorded within other long term liabilities on the Partnership s consolidated balance sheets. The range of the undiscounted amount the Partnership could pay related to the remaining contingent payment is between $0.0 and $6.0 million.

Other Financial Instruments

The estimated fair value of the Partnership s other financial instruments has been determined based upon its assessment of available market information and valuation methodologies. However, these estimates may not necessarily be indicative of the amounts the Partnership could realize upon the sale or refinancing of such financial instruments.

The Partnership s current assets and liabilities on its consolidated balance sheets, other than the derivatives, NGL linefill and contingent consideration discussed above, are considered to be financial instruments for which the estimated fair values of these instruments approximate their carrying amounts due to their short-term nature and thus are categorized as Level 1 values. The carrying value of outstanding borrowings under the revolving credit facility, which bear interest at a variable interest rate, approximates their estimated fair value and thus is categorized as a Level 1 value. The estimated fair value of the Partnership s Senior Notes (see Note 13) is based upon the market approach and calculated using the yield of the Senior Notes as provided by financial institutions and thus is categorized as a Level 3 value. The estimated fair values of the Partnership s total debt at June 30, 2014 and December 31, 2013, which consists principally of borrowings under the revolving credit facility and the Senior Notes, were $1,685.3 million and $1,663.6 million, respectively, compared with the carrying amounts of $1,654.6 million and $1,707.3 million, respectively.

Acquisitions

On May 7, 2013, the Partnership completed the TEAK Acquisition (see Note 3). The fair value measurements of assets acquired and liabilities assumed are based on inputs that are not observable in the market and therefore represent Level 3 inputs. These inputs require significant judgments and estimates at the time of the valuation.

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NOTE 12 ACCRUED LIABILITIES

The following is a summary of accrued liabilities (in thousands):

	June 30, 2014	December 31, 2013
Accrued capital expenditures	$ 12,217	$ 17,898
Acquisition-related liabilities	6,712	8,933
Accrued ad valorem and production taxes	13,619	3,551
Other	20,262	17,067
	$ 52,810	$ 47,449

NOTE 13 DEBT

Total debt consists of the following (in thousands):

	June 30, 2014	December 31, 2013
Revolving credit facility	$ 100,000	$ 152,000
6.625% Senior notes due 2020	504,219	504,556
5.875% Senior notes due 2023	650,000	650,000
4.750% Senior notes due 2021	400,000	400,000
Capital lease obligations	420	754
Total debt	1,654,639	1,707,310
Less current maturities	(320)	(524)
Total long term debt	$ 1,654,319	$ 1,706,786

Cash payments for interest related to debt, net of capitalized interest, were $8.2 million and $0.4 million for the three months ended June 30, 2014 and 2013, respectively, and $43.0 million and $22.5 million for the six months ended June 30, 2014 and 2013.

Revolving Credit Facility

At June 30, 2014, the Partnership had a $600.0 million senior secured revolving credit facility with a syndicate of banks that matures in May 2017. The weighted average interest rate for borrowings on the revolving credit facility, at June 30, 2014, was 3.2%. Up to $50.0 million of the revolving credit facility may be utilized for letters of credit, of which $3.1 million was outstanding at June 30, 2014. These outstanding letters of credit amounts were not reflected as borrowings on the Partnership s consolidated balance sheets. At June 30, 2014, the Partnership had $496.9 million of remaining committed capacity under its revolving credit facility.

The events that constitute an event of default for the revolving credit facility are also customary for loans of this size, including payment defaults, breaches of representations or covenants contained in the credit agreement, adverse judgments against the Partnership in excess of a specified amount, and a change of control of the General Partner.

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On March 11, 2014, the Partnership entered into an amendment to the credit agreement governing the revolving credit facility which, among other changes:

adjusted the duration of, and maximum ratios allowed during, the Acquisition Period, as defined in the credit agreement, for the Consolidated Funded Debt Ratio, as defined in the credit agreement; and

permitted the payment of cash distributions, if any, on the Class E Preferred Units so long as the Partnership has a pro forma Minimum Liquidity, as defined in the credit agreement, of greater than or equal to $50 million.

As of June 30, 2014, the Partnership was in compliance with all covenants under the credit facility.

Senior Notes

At June 30, 2014, the Partnership had $500.0 million principal outstanding of 6.625% unsecured senior notes due October 1, 2020 (6.625% Senior Notes), $650.0 million principal outstanding of 5.875% unsecured senior notes due August 1, 2023 (5.875% Senior Notes), and $400.0 million of 4.75% unsecured senior notes due November 15, 2021 (4.75% Senior Notes and with the 6.625% Senior Notes and 5.875% Senior Notes, the Senior Notes). The 6.625% Senior Notes are presented combined with a net $4.2 million unamortized premium as of June 30, 2014.

Indentures governing the Senior Notes contain covenants, including limitations of the Partnership s ability to: incur certain liens; engage in sale/leaseback transactions; incur additional indebtedness; declare or pay distributions if an event of default has occurred; redeem, repurchase or retire equity interests or subordinated indebtedness; make certain investments; or merge, consolidate or sell substantially all its assets. The Partnership is in compliance with these covenants as of June 30, 2014.

4.75% Senior Notes

On May 10, 2013, the Partnership issued $400.0 million of the 4.75% Senior Notes in a private placement transaction. The 4.75% Senior Notes were issued at par. The Partnership received net proceeds of $391.2 million after underwriting commissions and other transactions costs and utilized the proceeds to repay a portion of the outstanding indebtedness under the revolving credit agreement as part of the TEAK Acquisition (see Note 3).

5.875% Senior Notes

On February 11, 2013, the Partnership issued $650.0 million of the 5.875% Senior Notes in a private placement transaction. The 5.875% Senior Notes were issued at par. The Partnership received net proceeds of $637.3 million after underwriting commissions and other transactions costs and utilized the proceeds to redeem the 8.75% Senior Notes and repay a portion of the outstanding indebtedness under the credit facility.

8.75% Senior Notes

On January 28, 2013, the Partnership commenced a cash tender offer for any and all of its outstanding 8.75% Senior Notes and a solicitation of consents to eliminate most of the restrictive covenants and certain of the events of default contained in the indenture governing the 8.75% Senior

Notes (8.75% Senior Notes Indenture). Approximately $268.4 million aggregate principal amount of the 8.75% Senior Notes were validly tendered as of the expiration date of the consent solicitation. In February 2013, the Partnership accepted for purchase all 8.75% Senior Notes validly tendered as of the expiration of the consent solicitation and paid $291.4 million to redeem the $268.4 million principal plus $11.2 million make-whole premium, $3.7 million accrued interest and $8.0 million consent payment. The Partnership entered into a supplemental indenture amending and supplementing the 8.75% Senior Notes Indenture.

On March 12, 2013, the Partnership paid $105.6 million to redeem the remaining $97.3 million 8.75% Senior Notes not purchased in connection with the tender offer, plus a $6.3 million make-whole premium and $2.0 million in accrued interest. The Partnership funded the redemption with a portion of the net proceeds from the issuance of the 5.875% Senior Notes.

Capital Leases

The following is a summary of the leased property under capital leases as of June 30, 2014 and December 31, 2013, which are included within property, plant and equipment (see Note 6) (in thousands):

	June 30, 2014	December 31, 2013
Pipelines, processing and compression facilities	$ 1,142	$ 2,281
Less accumulated depreciation	(175)	(330)
	$ 967	$ 1,951

During the six months ended June 30, 2014, the Partnership took ownership of $1.1 million of facilities in connection with the conclusion of a capital lease. Depreciation expense for leased properties was $32 thousand and $39 thousand for the three months ended June 30, 2014 and 2013, respectively, and $64 thousand and $250 thousand for the six months ended June 30, 2014 and 2013, respectively, which is included within depreciation and amortization expense on the Partnership s consolidated statements of operations (see Note 6).

NOTE 14 COMMITMENTS AND CONTINGENCIES

The Partnership has certain long-term unconditional purchase obligations and commitments, consisting primarily of transportation contracts. These agreements provide for transportation services to be used in the ordinary course of the Partnership s operations. Transportation fees paid related to these contracts, including minimum shipment payments, were $7.9 million and $3.1 million for the three months ended June 30, 2014 and 2013, respectively, and $15.2 million and $6.1 million for the six months ended June 30, 2014 and 2013, respectively. The future fixed and determinable portion of the obligations as of June 30, 2014 was as follows: remainder of 2014 $3.0 million; 2015 $3.4 million; 2016 to 2017 $3.5 million per year; and 2018 $2.7 million.

The Partnership had committed approximately $182.4 million for the purchase of property, plant and equipment at June 30, 2014.

The Partnership is a party to various routine legal proceedings arising out of the ordinary course of its business. Management of the Partnership believes that the ultimate resolution of these actions, individually or in the aggregate, will not have a material adverse effect on its financial condition or results of operations.

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NOTE 15 BENEFIT PLANS

Long-Term Incentive Plans

The Partnership has a 2004 Long-Term Incentive Plan (2004 LTIP) and a 2010 Long-Term Incentive Plan (2010 LTIP and collectively with the 2004 LTIP, the LTIPs) in which officers, employees, non-employee managing board members of the General Partner, employees of the General Partner s affiliates and consultants are eligible to participate. The LTIPs are administered by the compensation committee appointed by the General Partner s managing board (the Compensation Committee). Under the LTIPs, the Compensation Committee may make awards of either phantom units or unit options for an aggregate of 3,435,000 common units. At June 30, 2014, the Partnership had 2,046,819 phantom units outstanding under the Partnership s LTIPs, with 121,946 phantom units and unit options available for grant. The Partnership generally issues new common units for phantom units and unit options that have vested and have been exercised.

Partnership Phantom Units

Phantom units granted to employees under the LTIPs generally have vesting periods of four years. However, in February 2014, the Partnership granted 227,000 phantom units with a vesting period of three years. Phantom units awarded to non-employee managing board members will vest over a four year period. Awards to non-employee members of the board automatically vest upon a change of control, as defined in the LTIPs. At June 30, 2014, there were 621,295 phantom units outstanding under the LTIPs that will vest within twelve months.

All phantom units outstanding under the LTIPs at June 30, 2014 include distribution equivalent rights (DERs), which are rights to receive cash per phantom unit in an amount equal to and at the same time as the cash distributions the Partnership makes on a common unit during the period the phantom unit is outstanding. The DERs were granted to the participants by the Compensation Committee. The amounts paid with respect to LTIP DERs were $1.0 million and $0.6 million during the three months ended June 30, 2014 and 2013, respectively, and $1.9 million and $1.2 million during the six months ended June 30, 2014 and 2013, respectively. These amounts were recorded as reductions of equity on the Partnership s consolidated balance sheets.

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The following table sets forth the Partnership s LTIPs phantom unit activity for the periods indicated:

	Three Months Ended June 30,				Six Months Ended June 30,			
	2014		2013		2014		2013	
	Number of Units	Fair Value[1]	Number of Units	Fair Value[1]	Number of Units	Fair Value[1]	Number of Units	Fair Value[1]
Outstanding, beginning of period	1,664,642	$ 35.59	1,057,083	$ 33.22	1,446,553	$ 36.32	1,053,242	$ 33.21
Granted	487,873	33.92	36,971	38.10	722,574	32.98	43,775	37.32
Forfeited	(1,450)	36.34	(2,100)	32.95	(3,650)	38.25	(2,100)	32.95
Matured and issued[2][3]	(104,246)	30.49	(182,942)	32.65	(118,658)	30.92	(185,905)	32.59
Outstanding, end of period[4]	2,046,819	$ 35.45	909,012	$ 33.54	2,046,819	$ 35.45	909,012	$ 33.54
Matured and not issued[5]	112,423	$ 32.19	39,347	$ 24.91	112,423	$ 32.19	39,347	$ 24.91
Non-cash compensation expense recognized (in thousands)		$ 6,443		$ 3,436		$ 12,882		$ 7,820

(1) Fair value based upon weighted average grant date price.

(2) The intrinsic values for phantom unit awards exercised during the three months ended June 30, 2014 and 2013 were $3.3 million and $6.6 million, respectively, and $3.8 million and $6.7 million during the six months ended June 30, 2014 and 2013, respectively.

(3) The aggregate intrinsic value for phantom u