

NGL Energy Partners LP  
Form 10-Q  
November 14, 2011  
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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**Form 10-Q**

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

For the quarterly period ended September 30, 2011

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: 001-35172

**NGL Energy Partners LP**

(Exact Name of Registrant as Specified in Its Charter)

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**Delaware**  
(State or Other Jurisdiction of Incorporation or  
Organization)

**27-3427920**  
(I.R.S. Employer Identification No.)

**6120 South Yale Avenue**  
**Suite 805**  
**Tulsa, Oklahoma**  
(Address of Principal Executive Offices)

**74136**  
(Zip code)

**(918) 481-1119**

(Registrant's Telephone Number, Including Area Code)

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  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 (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  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

Accelerated filer

Non-accelerated filer

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

As of November 11, 2011, there were 21,796,253 common units and 5,919,346 subordinated units issued and outstanding.

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**Forward-Looking Statements**

This quarterly report on Form 10-Q 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 quarterly report, words such as anticipate, project, expect, plan, goal, forecast, estimate, intend, could, believe, may, will and similar expressions and statements regarding our operations 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 prices and market demand for propane;
- energy prices generally;
- the price of propane compared to the price of alternative and competing fuels;
- the general level of petroleum product demand and the availability 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;

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- 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 infrastructure;
- availability and marketing of competitive fuels;
- the impact of energy conservation efforts;
- energy efficiencies and technological trends;
- governmental regulation and taxation;

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- hazards or operating risks incidental to the transporting and distributing of propane that may not be fully covered by insurance;
- the maturity of the propane industry and competition from other propane distributors;
- loss of key personnel;
- the fees we charge and the margins we realize for our terminal services;
- the nonpayment or nonperformance by our customers;
- the availability and cost of capital and our ability to access certain capital sources;
- a deterioration of the credit and capital markets;
- the ability to successfully identify and consummate strategic acquisitions at purchase prices that are accretive to our financial results and to successfully integrate acquired assets and 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. All forward-looking statements speak only as of the date of this quarterly report. Except as required by state and federal securities laws, we undertake no obligation to publicly update or revise any forward-looking statements as a result of new information, future events, or otherwise. When considering forward-looking statements, please review the risks described under Item 1A Risk Factors of this quarterly report and Item 1A Risk Factors in our annual report on Form 10-K for the fiscal year ended March 31, 2011.





Table of Contents**PART I****Item 1. Financial Statements (Unaudited)****NGL ENERGY PARTNERS LP****Unaudited Condensed Consolidated Balance Sheets****As of September 30, 2011 and March 31, 2011****(U.S. Dollars in Thousands)**

	September 30, 2011	March 31, 2011 (Note 3)
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 8,403	\$ 16,337
Accounts receivable - trade, net of allowance for doubtful accounts of \$163 and \$161, respectively	55,058	44,346
Accounts receivable - affiliates	92	
Inventories	107,285	12,697
Product exchanges	668	427
Prepaid expenses and other current assets	2,612	3,683
Total current assets	174,118	77,490
PROPERTY, PLANT AND EQUIPMENT, net of accumulated depreciation of \$5,347 and \$2,871, respectively	66,405	66,020
GOODWILL	9,118	8,568
INTANGIBLE ASSETS, net of accumulated amortization of \$3,062 and \$1,558, respectively	12,632	11,755
Total assets	\$ 262,273	\$ 163,833
<b>LIABILITIES AND PARTNERS EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Trade accounts payable	\$ 62,736	\$ 37,244
Accrued expenses and other payables	4,712	3,711
Product exchanges	10,142	1,045
Advance payments received from customers	33,131	7,714
Current maturities of long-term debt	40,647	830
Total current liabilities	151,368	50,544
LONG-TERM DEBT, net of current maturities	10,090	65,541
OTHER NON-CURRENT LIABILITIES	50	395
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>PARTNERS EQUITY, per accompanying statement:</b>		
General Partner 0.1% interest; 14,799 and 10,945 notional units outstanding, respectively	138	72

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Limited Partners	99.9% interest		
Common units	8,864,222 and 10,933,568 units outstanding, respectively	81,834	47,225
Subordinated units	5,919,346 and no units outstanding, respectively	18,793	
Accumulated other comprehensive income	Foreign currency translation		56
Total partners	equity	100,765	47,353
Total liabilities and partners	equity	\$ 262,273	\$ 163,833

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents**NGL ENERGY PARTNERS LP****AND NGL SUPPLY, INC.****Unaudited Condensed Consolidated Statements of Operations****Three Months and Six Months Ended September 30, 2011 and 2010****(U.S. Dollars in Thousands, except per unit and per share amounts)**

	NGL Energy Partners LP Three Months Ended September 30, 2011	NGL Supply, Inc. Three Months Ended September 30, 2010	NGL Energy Partners LP Six Months Ended September 30, 2011	NGL Supply, Inc. Six Months Ended September 30, 2010
<b>REVENUES:</b>				
Retail propane	\$ 19,225	\$ 4,727	\$ 32,077	\$ 6,868
Wholesale supply and marketing	190,130	151,295	367,627	309,029
Midstream	686	629	1,182	1,046
Total Revenues	210,041	156,651	400,886	316,943
<b>COST OF SALES:</b>				
Retail propane	13,208	3,393	21,314	4,749
Wholesale supply and marketing	188,144	149,199	365,913	305,965
Midstream	102	101	200	194
Total Cost of Sales	201,454	152,693	387,427	310,908
Gross Margin	8,587	3,958	13,459	6,035
<b>OPERATING COSTS AND EXPENSES:</b>				
Operating	7,250	2,667	14,392	5,231
General and administrative	4,164	2,105	6,200	3,210
Depreciation and amortization	1,701	674	3,078	1,389
Operating Loss	(4,528)	(1,488)	(10,211)	(3,795)
<b>OTHER INCOME (EXPENSE):</b>				
Interest income	99	25	225	66
Interest expense	(1,012)	(300)	(2,313)	(372)
Other, net	46	19	131	124
Loss Before Income Taxes	(5,395)	(1,744)	(12,168)	(3,977)
<b>INCOME TAX BENEFIT</b>		627		1,417
Net Loss	(5,395)	(1,117)	(12,168)	(2,560)
Net Loss Allocated to General Partner	5		12	
Net Loss Attributable to Noncontrolling Interest		16		45

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Net Loss Allocable to Limited Partners or Attributable to Parent Equity	\$	(5,390)	\$	(1,101)	\$	(12,156)	\$	(2,515)
Basic and Diluted Earnings Per Common Unit or Share	\$	(0.36)	\$	(55.86)	\$	(0.88)	\$	(128.46)
Basic and Diluted Earnings per Subordinated Unit	\$	(0.36)	\$		\$	(0.88)		
Basic Weighted average units outstanding:								
Common		8,864,222				9,370,997		
Subordinated		5,919,346				4,431,423		
Weighted average common shares outstanding:								
Basic				19,711				19,711
Diluted				19,711				19,711

The accompanying notes are an integral part of these condensed consolidated financial statements.

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**NGL ENERGY PARTNERS LP**

**AND NGL SUPPLY, INC.**

**Unaudited Condensed Consolidated Statements of Comprehensive Loss**

**Three Months and Six Months Ended September 30, 2011 and 2010**

**(U.S. Dollars in Thousands)**

	NGL Energy Partners LP Three Months Ended September 30, 2011	NGL Supply, Inc. Three Months Ended September 30, 2010	NGL Energy Partners LP Six Months Ended September 30, 2011	NGL Supply, Inc. Six Months Ended September 30, 2010
Net loss	\$ (5,395)	\$ (1,117)	\$ (12,168)	\$ (2,560)
Other comprehensive income net of tax:				
Change in foreign currency translation adjustment	(61)	(32)	(56)	(15)
Comprehensive loss	\$ (5,456)	\$ (1,149)	\$ (12,224)	\$ (2,575)

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents**NGL ENERGY PARTNERS LP****Unaudited Condensed Consolidated Statement of Changes in Partners Equity****Six Months Ended September 30, 2011****(U.S. Dollars in Thousands)**

	<b>General Partner</b>	<b>Common Units</b>	<b>Limited Partners Amount</b>	<b>Subordinated Units</b>	<b>Limited Partners Amount</b>	<b>Accumulated Other Comprehensive Income</b>	<b>Total Partners Equity</b>
BALANCES, March 31, 2011	\$ 72	10,933,568	\$ 47,225		\$	\$ 56	\$ 47,353
Distribution to partners (\$0.35 per unit)	(4)		(3,846)				(3,850)
Conversion of common units to subordinated units		(5,919,346)	(23,485)	5,919,346	23,485		
Sale of units in public offering, net		4,025,000	75,289				75,289
Repurchase of common units		(175,000)	(3,418)				(3,418)
General partner contribution	85						85
Net loss	(12)		(8,452)		(3,704)		(12,168)
Distribution to partners (\$0.1669 per unit)	(3)		(1,479)		(988)		(2,470)
Foreign currency translation adjustment						(56)	(56)
BALANCES, September 30, 2011	\$ 138	8,864,222	\$ 81,834	5,919,346	\$ 18,793	\$	\$ 100,765

The accompanying notes are an integral part of this condensed consolidated financial statement.

Table of Contents**NGL ENERGY PARTNERS LP****AND NGL SUPPLY, INC.****Unaudited Condensed Consolidated Statements of Cash Flows****Six Months Ended September 30, 2011 and 2010****(U.S. Dollars in Thousands)**

	<b>NGL Energy Partners LP Six Months Ended September 30, 2011</b>	<b>NGL Supply, Inc. Six Months Ended September 30, 2010</b>
<b>OPERATING ACTIVITIES:</b>		
Net loss	\$ (12,168)	\$ (2,560)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	4,133	1,825
Deferred income tax benefit		(1,417)
Bad debt provision	109	3
Commodity derivative gain	(465)	(226)
Gain on sale of assets	(46)	(124)
Other	79	8
Changes in operating assets and liabilities, net of acquisitions		
Accounts receivable	(10,821)	203
Inventories	(94,588)	(59,598)
Product exchanges, net	8,856	18,688
Prepaid expenses and other current assets	209	(1,023)
Accounts payable	25,492	(3,741)
Accrued expenses and other payables	1,001	(2,699)
Advance payments received from customers	25,417	19,912
Net cash used in operating activities	(52,792)	(30,749)
<b>INVESTING ACTIVITIES:</b>		
Purchases of long-lived assets	(2,094)	(280)
Cash paid for acquisitions of businesses	(2,190)	(123)
Cash flows from commodity derivatives	1,327	426
Proceeds from sales of assets	182	185
Advances to affiliates	(92)	
Collection of notes receivable		125
Net cash provided by (used in) investing activities	(2,867)	333
<b>FINANCING ACTIVITIES:</b>		
Proceeds from sale of common units, net of offering costs	75,289	
Repurchase of common units	(3,418)	
General partner contributions	85	
Proceeds from borrowings under revolving credit facility	98,000	34,490
Payments on revolving credit facility	(113,000)	(13,590)
Payments on other long-term debt	(979)	(722)
Debt issuance costs	(1,932)	
Distributions to partners	(6,320)	

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Preferred stock redemption				(3,000)
Common stock dividends (\$357 per share)				(7,000)
Preferred stock dividends				(17)
Net cash provided by financing activities		47,725		10,161
Net decrease in cash and cash equivalents		(7,934)		(20,255)
Cash and cash equivalents, beginning of period		16,337		24,238
Cash and cash equivalents, end of period	\$	8,403	\$	3,983

The accompanying notes are an integral part of these condensed consolidated financial statements.



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**NGL ENERGY PARTNERS LP**

**AND NGL SUPPLY, INC.**

**Notes to Unaudited Condensed Consolidated Financial Statements**

**As of September 30, 2011 and March 31, 2011 and for the  
Three Months and the Six Months Ended September 30, 2011 and 2010**

**Note 1 - Organization and Operations**

NGL Energy Partners LP ( we or the Partnership ) is a Delaware limited partnership formed in September 2010 to own and, through its subsidiaries, operate retail and wholesale propane and other natural gas liquids businesses that historically were owned and operated by NGL Supply, Inc. ( NGL Supply ), Hicks Oils and Hicksgas, Incorporated ( HOH ) and Hicksgas Gifford, Inc. ( Gifford ). We refer to HOH and Gifford collectively as Hicksgas. We had no operations prior to September 30, 2010.

NGL Supply was determined to be the acquirer in our formation transactions effected in October 2010. NGL Supply was organized on July 1, 1985 as a successor to a company founded in 1967, and was a diversified, vertically integrated provider of propane services including retail propane distribution; wholesale supply and marketing of propane and other natural gas liquids; and midstream operations consisting of propane terminal operations and services. As discussed in Note 3, in October 2010, we also acquired the retail propane businesses of Hicksgas located in Indiana and Illinois.

Our retail propane segment sells propane and propane-related products and services to residential, commercial and agricultural customers in Indiana, Illinois, Kansas and Georgia.

Our wholesale supply and marketing segment provides propane and other natural gas liquids to customers at open-access terminals throughout the common carrier pipeline systems in the Mid-Continent, Gulf Coast and Northeast regions of the United States. Our wholesale supply and marketing services include shipping and maintaining storage on these pipeline systems and supplying customers through terminals, refineries, third-party and leased tank cars and truck terminals. Our wholesale customers include various refineries, multistate marketers ranging in size from national and regional distribution companies to medium and small independent propane companies located throughout the country.

In our midstream segment, we provide propane terminal services to customers through our three proprietary terminals located in East St. Louis, Illinois; Jefferson City, Missouri; and St. Catharines, Ontario, Canada.

**Note 2 - Significant Accounting Policies**

*Basis of Presentation*

The condensed consolidated financial statements as of and for the three months and six months ended September 30, 2011 include our accounts and all of our direct and indirect subsidiaries. All significant intercompany transactions and account balances have been eliminated in consolidation. The condensed consolidated financial statements for the three months and six months ended September 30, 2010 represent the financial statements of NGL Supply.

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**NGL ENERGY PARTNERS LP**

**AND NGL SUPPLY, INC.**

**Notes to Unaudited Condensed Consolidated Financial Statements**

**As of September 30, 2011 and March 31, 2011 and for the**

**Three Months and the Six Months Ended September 30, 2011 and 2010**

The accompanying condensed consolidated financial statements are unaudited and have been prepared in accordance with accounting principles generally accepted in the United States of America ( GAAP ) for interim consolidated financial information and in accordance with the rules and regulations of the Securities and Exchange Commission ( SEC ). The condensed consolidated financial statements include all adjustments that we consider necessary for a fair statement of the financial position and results of operations for the interim periods presented. Such adjustments consist only of normal recurring items, unless otherwise disclosed herein. Accordingly, the condensed consolidated financial statements do not include all the information and footnotes required by GAAP for complete annual consolidated financial statements. However, we believe that the disclosures made are adequate to make the information not misleading. These interim unaudited condensed consolidated financial statements should be read in conjunction with our audited consolidated financial statements for the fiscal year ended March 31, 2011, included in our Annual Report on Form 10-K. Due to the seasonal nature of our operations, the results of operations for interim periods are not necessarily indicative of the results to be expected for a full year.

*Use of Estimates*

The preparation of consolidated financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

*Significant Accounting Policies*

Our significant accounting policies are consistent with those disclosed in Note 2 of the Notes to Consolidated Financial Statements in our audited consolidated financial statements for the year ended March 31, 2011 included in our Annual Report on Form 10-K.

*Revenue Recognition*

Our revenue is primarily generated by the sale of propane and other natural gas liquids and propane-related parts, fittings and appliances in the United States and by services and rentals provided by our retail propane, wholesale supply and marketing, and terminal operations in the United States and Canada.

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We accrue our revenues from propane and other natural gas liquids sales and propane-related sales at the time title to the product transfers to the purchaser, which typically occurs upon receipt of the product by the purchaser or installation of the appliance or rental equipment. We record our terminalling, storage and propane service revenues at the time the service is performed and tank and other rentals over the term of the lease. We record product purchases at the time title to the product transfers to us, which typically occurs upon receipt of the product. We present revenue-related taxes collected from customers and remitted to taxing authorities, principally sales and use taxes, on a net basis.

We consider two or more legally separate exchange transactions with the same counterparty,

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**Notes to Unaudited Condensed Consolidated Financial Statements**

**As of September 30, 2011 and March 31, 2011 and for the**

**Three Months and the Six Months Ended September 30, 2011 and 2010**

including buy/sell transactions, as a single arrangement on a combined basis. Our buy/sell transactions are netted against each other in the consolidated statements of operations with no effect on net income.

*Fair Value Measurements*

We apply fair value measurements to certain assets and liabilities, principally our commodity and interest rate derivative instruments and assets and liabilities acquired in a business combination. GAAP defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the measurement date. Fair value should be based upon assumptions that market participants would use when pricing an asset or liability, including assumptions about risk and risks inherent in valuation techniques and inputs to valuations. This includes not only the credit standing of counterparties and credit enhancements but also the impact of our own nonperformance risk on our liabilities. GAAP requires fair value measurements to assume that the transaction occurs in the principal market for the asset or liability or in the absence of a principal market, the most advantageous market for the asset or liability (the market for which the reporting entity would be able to maximize the amount received or minimize the amount paid). We evaluate the need for credit adjustments to our derivative instrument fair values in accordance with the requirements noted above.

We use the following fair value hierarchy, which prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

- Level 1 Quoted prices (unadjusted) in active markets for identical assets and liabilities that we have the ability to access at the measurement date. We did not have any fair value measurements categorized as Level 1 at September 30, 2011 or March 31, 2011.
- Level 2 Inputs other than quoted prices included within Level 1 that are either directly or indirectly observable for the asset or liability, including quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, inputs other than quoted prices that are observable for the asset or liability, and inputs that are derived from observable market data by correlation or other means. Instruments categorized in Level 2 include non-exchange traded derivatives such as over-the-counter commodity price swap and option contracts and interest rate protection agreements. All of our derivative financial instruments and our product exchange assets and liabilities were categorized as Level 2 at September 30, 2011 and March 31, 2011 (see Note 11). We determine the fair value of all our derivative financial instruments utilizing pricing models for significantly similar instruments. Inputs to the pricing models include publicly available prices and forward curves generated from a compilation of data gathered from third parties.

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- Level 3 Unobservable inputs for the asset or liability including situations where there is little, if any, market activity for the asset or liability. We did not have any

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derivative financial instruments or other assets or liabilities categorized as Level 3 at September 30, 2011 or March 31, 2011.

The fair value hierarchy gives the highest priority to quoted prices in active markets (Level 1) and the lowest priority to unobservable data (Level 3). In some cases, the inputs to measure fair value might fall into different levels of the fair value hierarchy. The lowest level input that is significant to a fair value measurement in its entirety determines the applicable level in the fair value hierarchy. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment, considering factors specific to the asset or liability.

*Supplemental Cash Flow Information*

Supplemental cash flow information is as follows for the periods indicated:

	Three Months Ended September 30,		Six Months Ended September 30,	
	2011	2010	2011	2010
	(in thousands)		(in thousands)	
<b>SUPPLEMENTAL CASH FLOW DISCLOSURE:</b>				
Interest paid	\$ 183	\$ 236	\$ 860	\$ 335
Income taxes paid	\$	\$ 220	\$	\$ 220

Cash flows from commodity derivative instruments that are not accounted for as hedges are classified as cash flows from investing activities in the consolidated statements of cash flows.

*Account Details*

Inventories consist of the following:

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	September 30, 2011	(in thousands)	March 31, 2011
Propane	\$ 103,261		\$ 9,529
Other	4,024		3,168
	\$ 107,285		\$ 12,697

### *Recent Accounting Developments*

In May 2011, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) 2011-04 Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in GAAP and IFRS. The amendments in ASU 2011-04 result in common fair value measurement and disclosure requirements in GAAP and International Financial Reporting Standards ( IFRS ). The new guidance applies to all reporting entities that are required or permitted to measure or disclose the fair value of an asset, liability or an instrument classified in shareholders' equity. Among other things, the new guidance requires quantitative information about unobservable inputs, valuation processes and sensitivity analysis associated with fair value measurements categorized within Level 3 of the fair value hierarchy. The new guidance is effective



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during interim and annual periods beginning after December 15, 2011 and is required to be applied on a prospective basis. We do not believe that the adoption of ASU 2011-04 will have a material impact on our results of operations or financial condition.

In November 2008, the SEC released a proposed roadmap regarding the potential use by U.S. issuers of financial statements prepared in accordance with International Financial Reporting Standards ( IFRS ). IFRS represent accounting standards published by the International Accounting Standards Board (the IASB ), which is based in London, England. In February 2010, the SEC expressed its continuing support for a single set of high-quality globally accepted accounting standards and established a general work plan that sets forth areas and factors the SEC will consider before requiring domestic public companies to transition to IFRS. Currently, the FASB and the IASB are working individually and jointly on a number of accounting standard convergence projects that, if finalized in 2011, would bring about a significant shift in the accounting and financial reporting landscape. These projects include a broad range of topics such as financial statement presentation, accounting for leases, revenue recognition, financial instruments, consolidations and fair value measurements.

The SEC expects to make a determination in 2011 regarding the mandatory adoption of IFRS, with the expectation that any decision to adopt IFRS will allow U.S. issuers a number of years to transition from current GAAP. We continue to monitor developments regarding the potential implementation of IFRS and the ongoing convergence projects of the FASB and IASB. We will evaluate the impact that any definitive accounting guidance may have on our financial statements once this information is finalized by the appropriate standard setting organizations, including the SEC.

**Note 3 Acquisitions**

***Fiscal 2012***

*Osterman*

On August 15, 2011, we entered into a business combination agreement with E. Osterman Propane, Inc., its affiliated companies and members of the Osterman family (collectively, Osterman ) for retail propane operations in the northeastern United States in order to expand our retail propane operations. The agreement closed on October 3, 2011 and was funded with cash of \$96 million and the issuance of 4 million common units, and also contemplates a working capital payment post closing for certain specified working capital items that might be payable to the

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Partnership or Osterman. The cash payments were funded with advances under our acquisition facility. We incurred and charged to general and administrative expense through September 30, 2011 \$530,000 of costs incurred in connection with the Osterman transaction that cannot be capitalized under GAAP.

We will include the results of Osterman's operations in our consolidated financial statements beginning October 3, 2011. We have valued the 4 million limited partner common units at \$20.47 per unit, the closing price of our common units on the closing date. We have not completed the

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initial accounting for the business combination. We are in the process of identifying, and obtaining an independent appraisal of, the fair value of the assets acquired in the combination. We expect to complete this process prior to our year end of March 31, 2012.

*SemStream*

On August 31, 2011, we entered into a business combination agreement with SemStream, L.P. ( *SemStream* ). We closed the *SemStream* transaction on November 1, 2011. We entered into this business combination in order to expand our midstream and wholesale supply and marketing operations. *SemStream* contributed substantially all of its natural gas liquids business and assets to us in exchange for 8,932,031 of our limited partner common units and a cash payment of approximately \$93 million, which we funded with \$10 million from our acquisition facility and \$83 million from our working capital facility.

The agreement also contemplates a working capital payment post closing for certain specified working capital items that might be payable to the Partnership or *SemStream*. In addition, in exchange for a cash contribution, *SemStream* acquired a 7.5% interest in our general partner.

The assets comprise 12 natural gas liquids terminals in Arizona, Arkansas, Indiana, Minnesota, Missouri, Montana, Washington and Wisconsin, 12 million gallons of above ground propane storage, 3.7 million barrels of underground leased storage for natural gas liquids and a rail fleet of approximately 350 leased and 12 owned cars and approximately \$100 million of natural gas liquids inventory.

We incurred and charged to general and administrative expense through September 30, 2011 approximately \$539,000 of costs related to the *SemStream* transaction that cannot be capitalized under GAAP.

We will include the results of *SemStream*'s operations in our consolidated financial statements beginning November 1, 2011. We have valued the 8.9 million limited partner common units at \$21.07 per unit, the closing price of our common units on the closing date. We have not completed the initial accounting for the business combination. We are beginning the process of identifying, and obtaining an independent appraisal of, the fair value of the assets acquired in the business combination and the fair value of the 7.5% interest in our general partner. We expect to complete this process prior to our year end of March 31, 2012.

*Other*

During the three months ended September 30, 2011, we acquired certain retail propane operations in Kansas for a total payment of \$2.1 million. These operations have been included in our results of operations since July 2011, and have not been significant through September 30, 2011.

During the six months ended September 30, 2011, we incurred and charged to general and administrative expenses approximately \$105,000 of other acquisition-related costs that cannot be capitalized under GAAP.

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As discussed in Note 1, we purchased the retail propane operations of Hicksgas in October 2010 as part of our formation transactions. The following table presents the final allocation of the acquisition cost to the assets acquired and liabilities assumed, based on their fair values, in the acquisition of the retail propane businesses of Hicksgas described above (in thousands):

	<b>Final Allocation</b>	<b>Estimated Allocation as of March 31, 2011</b>	<b>Revision</b>
Accounts receivable	\$ 5,669	\$ 6,156	\$ (487)
Inventory	6,182	6,229	(47)
Prepaid expenses and other current assets	2,600	2,604	(4)
	14,451	14,989	(538)
<b>Property, plant, and equipment:</b>			
Land	2,666		2,666
Tanks and other retail propane equipment (15 year life)	23,016	22,213	803
Vehicles (5 year life)	6,599	6,173	426
Buildings (30 year life)	7,053	6,241	812
Office equipment (5 year life)	523	1,264	(741)
<b>Amortizable intangible assets:</b>			
Customer relationships (15 year life)	2,170	3,278	(1,108)
Non-compete agreements (5 year life)	550	868	(318)
Tradenames (indefinite-life intangible asset)	830		830
Goodwill (Retail propane segment)	3,716	7,756	(4,040)
<b>Total assets acquired</b>	<b>61,574</b>	<b>62,782</b>	<b>(1,208)</b>
Accounts payable	1,837	2,777	(940)
Customer advances and deposits	12,089	12,063	26
Accrued and other current liabilities	2,152	2,203	(51)
	16,078	17,043	(965)
Long-term debt	5,768	5,768	
Other long-term liabilities	274	517	(243)
<b>Total liabilities assumed</b>	<b>22,120</b>	<b>23,328</b>	<b>(1,208)</b>
<b>Net assets acquired</b>	<b>\$ 39,454</b>	<b>\$ 39,454</b>	<b>\$</b>

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The Hicksgas acquisition accounting was based on the estimated fair value of the assets acquired and liabilities assumed, based primarily on an independent appraisal completed in July 2011. The revisions indicated above were recorded during the three months ended June 30, 2011, on a retrospective basis as an adjustment to the March 31, 2011 carrying amounts. The impact of such revisions on net income for prior periods was not significant.

Goodwill was warranted because these acquisitions enhance our current retail propane operations. We expect all of the goodwill acquired to be deductible for income tax purposes (see

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Note 8). We do not believe that the acquired finite-lived intangible assets will have any significant residual value at the end of their useful life.

The total acquisition cost was \$39.5 million, consisting of cash of approximately \$17.2 million and the issuance of 4,154,757 common units valued at approximately \$22.3 million. The units issued to the shareholders of HOH in the formation transaction were valued at \$5.37 per unit, the price paid for common units issued in our formation.

*Pro Forma Results of Operations*

The operations of Hicksgas have been included in our statements of operations since they were acquired in October 2010. The following unaudited pro forma consolidated results of operations for the three months and six months ended September 30, 2010 are presented as if the Hicksgas acquisitions had been made, and our initial public offering, unit split and unit conversion (see Note 10) had been completed, on April 1, 2010. The pro forma earnings per unit are based on the common and subordinated units outstanding as of September 30, 2011.

	<b>Three Months Ended September 30, 2010</b>	<b>Six Months Ended September 30, 2010</b>
	<b>(in thousands)</b>	
Revenues	\$ 169,397	\$ 336,921
Net loss	(3,173)	(8,558)
Limited partners' interest in net loss	(3,170)	(8,549)
Basic and diluted earnings per Common Unit	(0.21)	(0.58)
Basic and diluted earnings per Subordinated Unit	(0.21)	(0.58)

The pro forma consolidated results of operations include adjustments to give effect to depreciation on the step-up of property, plant and equipment, amortization of intangible assets, use of the proceeds from our offering to pay debt issued to finance the acquisition and certain other adjustments. The pro forma information is not necessarily indicative of the results of operations that would have occurred had the transactions been made at the beginning of the period presented or the future results of the combined operations.

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Our earnings per common and subordinated unit or per share of common stock for the periods indicated below were computed as follows:

	<b>Three Months Ended September 30,</b>		<b>Six Months Ended September 30,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
	<b>(dollars in thousands, except per unit or share amounts)</b>			
<b>Earnings per Limited Partner Unit or Common Stock:</b>				
Net loss or net loss to the parent equity	\$ (5,395)	\$ (1,101)	\$ (12,168)	\$ (2,515)
Loss allocable to general partner	5		12	
Preferred stock dividends				(17)
Net loss allocable to limited partners or common shareholders	\$ (5,390)	\$ (1,101)	\$ (12,156)	\$ (2,532)
Weighted average common units or common shares outstanding - Basic and Diluted	8,864,222	19,711	9,370,997	19,711
Weighted average subordinated units outstanding - Basic and Diluted	5,919,346		4,431,423	
Earnings per common unit or common share - Basic and Diluted	\$ (0.36)	\$ (55.86)	\$ (0.88)	\$ (128.46)
Earnings per subordinated unit - Basic and Diluted	\$ (0.36)		\$ (0.88)	

In the computation of diluted earnings per common share of NGL Supply for the three and six months ended September 30, 2010, the impact of the outstanding stock options prior to exercise (approximately 237 shares) has not been included because the effect would be anti-dilutive.



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Our property, plant and equipment, net of depreciation, consists of the following as of the dates indicated:

Description and Useful Life	September 30,	March 31,
	2011	2011
	(in thousands)	
Terminal assets (30 years)	\$ 18,716	\$ 18,933
Retail propane equipment (5-15 years)	31,735	30,360
Vehicles (5 years)	8,748	7,666
Information technology equipment (3 years)	734	678
Buildings (30 years)	7,463	7,053
Land (nondepreciable) and other (3-7 years)	4,356	4,201
	71,752	68,891
Less: Accumulated depreciation	5,347	2,871
Net property, plant and equipment	\$ 66,405	\$ 66,020

Depreciation expense was approximately \$1.4 million and \$0.5 million for the three months ended September 30, 2011 and 2010, respectively, and approximately \$2.6 million and \$1.0 million for the six months ended September 30, 2011 and 2010, respectively.

**Note 6 Goodwill and Intangible Assets**

The changes in the balance of goodwill during the six months ended September 30, 2011 were as follows (in thousands):

Balance, March 31, 2011, as previously reported	\$ 12,608
Revision to allocation of Hicksgas acquisition	(4,040)
Balance March 31, 2011, as retrospectively adjusted	8,568
Retail propane acquisitions	550
Balance, September 30, 2011	\$ 9,118

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Goodwill by segment is as follows:

	September 30, 2011	(in thousands)	March 31, 2011
Retail propane	\$ 7,084		\$ 6,534
Wholesale supply and marketing	2,034		2,034
	\$ 9,118		\$ 8,568

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Our intangible assets consist of the following as of the dates indicated:

	Useful Lives	September 30, 2011		March 31, 2011	
		Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
(in thousands)					
<b>Amortizable</b>					
Supply and storage agreements	8 years	\$ 1,802	\$ 801	\$ 1,802	\$ 400
Customer lists	8-10 years	2,282	304	2,033	154
Customer relationships	15 years	2,170	147	2,170	200
Non-compete agreements	2-6 years	1,750	590	1,550	239
Debt issuance costs	5 years	6,860	1,220	4,928	565
Total amortizable		14,864	3,062	12,483	1,558
<b>Non-Amortizable</b>					
Trade names	Indefinite	830		830	
Total		\$ 15,694	\$ 3,062	\$ 13,313	\$ 1,558

Expected amortization of our amortizable intangible assets is as follows (in thousands):

<b>Year Ending March 31,</b>	
2012 (six months)	\$ 1,614
2013	2,850
2014	1,999
2015	1,978
2016	1,453
Thereafter	1,908
	\$ 11,802

Amortization expense was as follows:

Recorded in	Three Months Ended September 30,		Six Months Ended September 30,	
	2011	2010	2011	2010
	(in thousands)		(in thousands)	

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Cost of sales	\$	200	\$	200	\$	400	\$	400
Depreciation and amortization		267		192		449		392
Interest expense		303		21		655		43
	\$	770	\$	413	\$	1,504	\$	835

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Our long-term debt consists of the following:

	September 30, 2011		March 31, 2011
	(in thousands)		
Revolving credit facility			
Acquisition loans	\$		\$ 65,000
Working capital loans		50,000	
Other notes payable		737	1,371
		50,737	66,371
Less - current maturities		40,647	830
Long-term debt	\$	10,090	\$ 65,541

*Revolving Credit Facility*

We and our subsidiaries have a \$330 million credit agreement (the Credit Agreement) with a group of banks, consisting of a \$130 million working capital facility and a \$200 million acquisition facility. Borrowings under the working capital facility are subject to a defined borrowing base. In addition, we can elect to reallocate the lesser of up to \$75.0 million or the unused portion of our acquisition facility at the request date to our working capital facility up to three times per year. Subsequent to September 30, 2011, we reallocated \$50 million to our working capital facility. Substantially all of our assets are pledged as collateral under the Credit Agreement.

Borrowings under the Credit Agreement bear interest at designated interest rates depending on the computed leverage ratio, which is the ratio of total indebtedness (as defined) at any determination date to consolidated EBITDA for the period of the four fiscal quarters most recently ended. Interest is payable quarterly. Interest rates vary at LIBOR plus 2.75% to 3.50% for any LIBOR borrowings, or the bank's prime rate plus 1.75% to 2.50% for any base rate borrowings (5% at September 30, 2011 for the working capital facility), in each case depending upon the leverage ratio. We had no LIBOR borrowings at September 30, 2011. We are also required to pay a 0.375% commitment fee on all undrawn commitments when our leverage ratio is less than or equal to 3.0 to 1.0, otherwise the commitment fee is 0.50%.

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Our revolving credit facility further indicates that our leverage ratio cannot exceed 4.0 to 1.0 at any quarter end. At September 30, 2011, our ratio of total funded debt to consolidated EBITDA was .05 to 1.

During the three months and six months ended September 30, 2011, we had a maximum borrowing under our working capital facility of approximately \$50 million and an average borrowing of \$25.3 million and \$15.7 million, respectively. The weighted average interest rate of our working capital borrowings during the three months and six months ended September 30, 2011 was 5.23% and 5.32%, respectively, and the interest rate at September 30, 2011 was 5%.

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The Credit Agreement has a final maturity on October 1, 2016, except for a \$30 million portion of the working capital facility that terminates in February 2012. Once a year, we must prepay the outstanding working capital revolving loans and collateralize outstanding letters of credit in order to reduce the total working capital borrowings to less than \$10.0 million for 30 consecutive days. In May 2011, we repaid the \$65.0 million advances under our acquisition facility using the proceeds from our initial public offering (see Note 10). Subsequent to September 30, 2011, we have borrowed approximately \$107 million against our acquisition facility and an additional approximately \$91 million against our working capital facility, primarily to fund our business combinations with Osterman and SemStream.

Our revolving credit facility includes customary events of default. At September 30, 2011, we were in compliance with all debt covenants to our revolving credit facility. Our revolving credit facility also contains various covenants limiting our ability to (subject to certain exceptions), among other things:

- incur other indebtedness (other than permitted debt as defined in the credit facility);
- grant or incur liens on our property;
- create or incur any contingent obligations;
- make investments, loans and acquisitions;
- enter into a merger, consolidation or sale of assets;
- change the nature of the business or name or place of business of any of the Credit Parties without approval;

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- pay dividends or make distributions if we are in default under the revolving credit facility or in excess of available cash;  
and
- prepay, redeem, defease or otherwise acquire any permitted subordinated debt or make certain amendments to permitted subordinated debt.

### *Other Notes Payable*

The other notes payable of approximately \$0.7 million mature as follows (in thousands):

<b>Year Ending March 31,</b>		
2012 (six months)	\$	195
2013		452
2014		90
	\$	737



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**Note 8 - Income Taxes**

We qualify as a partnership for income taxes. As such, we will not pay any U.S. Federal income tax. Rather, each owner will report their share of our income or loss on their individual tax returns. Accordingly, no income tax provision has been recorded for the three months and six months ended September 30, 2011. The aggregate difference in the basis of our net assets for financial and tax reporting purposes cannot be readily determined as we do not have access to information regarding each partner's basis in the Partnership.

As a publicly-traded partnership, we are allowed to have non-qualifying income up to 10% of our gross income and not be subject to taxation as a corporation. During the three months and six months ended September 30, 2011, we formed a taxable corporate subsidiary and transferred to such subsidiary certain assets and operations that represent non-qualifying income for a partnership. As a result, our taxable subsidiary will be subject to income taxes related to the taxable income generated by its operations. During the three month and six month periods ended September 30, 2011, the operations of our corporate subsidiary were not significant.

NGL Supply's deferred tax benefit for the three month and six month periods ended September 30, 2010 was computed using the expected annual effective tax rate which differs from the statutory rate due to the effect of state income taxes.

**Note 9 - Commitments and Contingencies**

*Litigation*

We are involved in claims and legal actions arising in the ordinary course of business. We believe that the ultimate disposition of these matters will not have a material adverse effect on our financial position and results of operations.

*Obligations Under Propane Asset Purchase and Sale Agreement*

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In connection with the purchase of certain propane assets from ConocoPhillips, NGL Supply executed the following agreements in November 2002:

*Propane Business Operating & Maintenance Agreement.* The Propane Business Operating & Maintenance Agreement specifies that ConocoPhillips will continue to operate the propane assets for us and provides for the payment for such services as well as the payment for the utilization of certain common facilities, as defined. The agreement has a primary term of ten years from November 7, 2002, and provides for an extension for a five-year period, to be continued on a year-by-year basis. We have the ability to terminate the agreement with written notice by August 1 of the calendar year preceding the year we would terminate the agreement.

We are obligated to pay a fixed monthly operating fee plus a utility service fee which varies based on usage and all direct costs incurred by ConocoPhillips related to the propane assets. The initial monthly operating fee was \$25,000, which consisted of a labor charge of \$15,000 plus a

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non-labor charge of \$10,000. During the ten-year primary term, the labor charge component increases at a rate of 2.5% per year, and during the five-year extension, the labor charge component is increased at an amount appropriate in the circumstances based on ConocoPhillips' actual labor and benefit costs. The non-labor component was fixed for a term of two years, but thereafter was to be adjusted for every two-year period based on ConocoPhillips' actual costs of operating our propane assets. The total operating fee charged to cost of sales on the consolidated statements of operations, including the charge for the utility service fee and propane asset direct charges, was as follows (in thousands):

	2011		2010
Three months ended September 30	\$	89	\$ 88
Six months ended September 30		177	175

The total minimum monthly fee as of September 30, 2011 is approximately \$30,000. During the remaining term of the primary ten-year period and the five-year extension, the estimated minimum annual commitments for the Propane Business Operating & Maintenance Agreement for the remainder of the year ending March 31, 2012 and the years ending March 31, 2013 through March 31, 2016 are as follows (in thousands):

<b>Year Ending March 31,</b>		
2012 (six months)	\$	182
2013		364
2014		370
2015		376
2016		382

*Propane Supply Agreement.* This agreement was executed in order to provide us with a constant supply of propane for our business. The agreement is for a primary term of ten years, and may be extended for an additional five-year period, then continuing on a year-by-year basis.

The agreement specifies that we may purchase a specified volume of propane per week from ConocoPhillips. The price we will pay is an average of the published daily propane spot price at Conway, Kansas plus a location differential equal to published pipeline tariffs and, for the ten-year primary period, less a specified discount which varies depending upon the location of purchase. The charge for such propane purchases is included in cost of sales on our consolidated statements of operations.

*Storage Space Lease.* NGL Supply executed a propane storage space lease with ConocoPhillips for storage at its Borger, Texas storage facility. The storage agreement provides for a volume of up to 850,000 barrels of propane at any one time, and expires on March 31, 2012.

The storage agreement requires a specified minimum storage payment which varies by year, plus additional charges to the extent we had more than the designated 850,000 barrels in storage at

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any time. The total lease charge recorded in cost of sales on our consolidated statements of operations was as follows (in thousands):

	<b>2011</b>		<b>2010</b>	
Three months ended September 30	\$	108	\$	108
Six months ended September 30		217		217

As of September 30, 2011, the monthly storage charge is approximately \$36,000. The estimated future annual storage charge will be approximately \$0.2 million during the remainder of the year ending March 31, 2012. We are presently negotiating an extension to this storage agreement; however, there is no guarantee any such extension will be executed or on the same terms.

*Other Operating Leases*

We have executed various noncancelable operating lease agreements for office space, underground propane storage, trucks, real estate, equipment and bulk propane storage tanks. Rental expense relating to operating leases (excluding the Borger lease discussed above) was as follows (in thousands):

	<b>2011</b>		<b>2010</b>	
Three months ended September 30	\$	813	\$	660
Six months ended September 30		1,560		1,325

Future minimum lease payments at September 30, 2011, are as follows (in thousands):

<b>Year Ending March 31,</b>	
2012 (six months)	\$ 1,420
2013	2,767
2014	2,766
2015	2,698
2016	2,616
	\$ 12,267

*Sales and Purchase Contracts*

We have entered into sales and purchase contracts for propane and other natural gas liquids to be delivered in future periods. These contracts require that the parties physically settle the transactions with natural gas liquid inventory. At September 30, 2011, we had fixed-price outstanding sales contracts of approximately \$154.4 million (approximately 101.8 million gallons) and fixed-price outstanding purchase contracts of approximately \$109.9 million (approximately 77.3 million gallons). These contracts have terms that expire at various dates through March 31, 2013.

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**Note 10 Equity**

The Partnership's equity consists of a 0.1% general partner equity and a 99.9% limited partner equity. Limited partner equity consists of common and subordinated units. The limited partner units share equally in the allocation of income or loss. The principal difference between common and subordinated units is that in any quarter during the subordination period, holders of the subordinated units are not entitled to receive any distribution until the common units have received the minimum quarterly distribution plus any arrearages in the payment of the minimum quarterly distribution from prior quarters. Subordinated units will not accrue arrearages.

When the subordination period ends, all subordinated units will convert into common units on a one-for-one basis and all common units thereafter will no longer be entitled to arrearages.

Our general partner is not obligated to make any additional capital contributions or guarantee any of our debts or obligations.

*Initial Public Offering*

During May 2011, we sold a total of 4,025,000 common units (including the exercise by the underwriters of their option to purchase additional common units from us) in our initial public offering at \$21 per unit. Our proceeds from the sale of 3,850,000 common units of approximately \$72.0 million, net of total offering costs of approximately \$9.0 million, were used to repay advances under our acquisition credit facility and for general partnership purposes. Proceeds from the sale of 175,000 common units (\$3.4 million) from the underwriters' exercise of their option to purchase additional common units from us were used to redeem 175,000 of the common units outstanding prior to our initial public offering.

*Unit Split and Conversion of Common Units to Subordinated Units*

On May 11, 2011, we:

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- Effectuated a 3.7219 to one split of our common units. All unit and per-unit information herein has been adjusted to reflect after-split information, and
- Converted 5,919,346 of our common units to subordinated units.

### *Issuance of Units Subsequent to September 30, 2011*

In connection with the Osterman transaction (see Note 3), we issued 4 million common units which have been valued at \$20.47. These units are not eligible for any distributions declared or made with respect to any of our fiscal quarters ending prior to the closing date of our transaction.



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In connection with the SemStream transaction (see Note 3), we issued 8,932,031 limited partner common units which have been valued at \$21.07 per unit. SemStream has waived ordinary course cash distributions on a total of 3,932,031 of these units prior to August 30, 2012.

In connection with the completion of the Osterman transaction, we amended our current Registration Rights Agreement by entering into a First Amended and Restated Registration Rights Agreement dated October 3, 2011, by and among the Partnership, Hicks Oils & Hicksgas, Incorporated, NGL Holdings, Inc., Krim2010, LLC, Infrastructure Capital Management, LLC, Atkinson Investors, LLC, E. Osterman Propane, Inc. and the other holders party thereto. Subsequently, in connection with the completion of the SemStream transaction, the First Amended and Restated Registration Rights Agreement was amended by that certain Amendment No. 1 and Joinder to First Amended and Restated Registration Rights Agreement dated as of November 1, 2011, by and among the Partnership and SemStream. Together, these amendments provide for, among other things, certain registration rights for certain holders of our common units and increase the total number of permitted demand registrations from three to six.

*Distributions*

Our general partner has adopted a cash distribution policy that will require us to pay a quarterly distribution to the extent we have sufficient cash from operations after establishment of cash reserves and payment of fees and expenses, including payments to the general partner and its affiliates, referred to as available cash, in the following manner:

- First, 99.9% to the holders of common units and 0.1% to the general partner, until each common unit has received the specified minimum quarterly distribution, plus any arrearages from prior quarters.
  
- Second, 99.9% to the holders of subordinated units and 0.1% to the general partner, until each subordinated unit has received the specified minimum quarterly distribution.
  
- Third, 99.9% to all unitholders, pro rata, and 0.1% to the general partner.

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The general partner will also receive, in addition to distributions on its 0.1% general partner interest, additional distributions based on the level of distributions to the limited partners. These distributions are referred to as incentive distributions.

During the three months ended June 30, 2011, we distributed a total of \$3.85 million (\$0.35 per common and general partner notional unit) to our unitholders of record as of March 31, 2011.

During the three months ended September 30, 2011, we distributed a total of \$2.5 million (\$0.1669 per unit) to our general partner and our unitholders of record on August 3, 2011.

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Subsequent to September 30, 2011, we declared a distribution of \$0.3375 per unit to unitholders of record on October 31, 2011, excluding the units issued in our Osterman acquisition. This distribution was paid on November 14, 2011.

**Note 11 Fair Value of Financial Instruments**

Our cash and cash equivalents, accounts receivable, accounts payable and accrued expenses and other current liabilities (excluding derivative instruments) are carried at amounts which reasonably approximate their fair value due to their short-term nature. The carrying amounts of our variable-rate debt obligations reasonably approximate their fair value due to their variable interest rates on substantially all of the debt and there have been no changes in conditions from the inception of the credit facility indicating that our credit terms were not market terms.

The following table presents the estimated fair value measurements of our assets and liabilities carried at fair value in our condensed consolidated financial statements at the dates indicated:

Item	Recorded As	September 30, 2011		March 31, 2011	
		Level 1	Level 2	Level 1	Level 2
(in thousands)					
<b>Assets:</b>					
Commodity derivatives	Prepaid Expenses	\$	\$	4	\$ 783
Product exchanges	Product Exchanges		668		427
<b>Liabilities:</b>					
Product exchanges	Product Exchanges		10,142		1,045
Interest rate derivatives	Accrued Expenses		237		293
Commodity derivatives	Accrued Expenses		97		

We have an interest rate swap agreement to hedge the risk of interest rate fluctuations on our long term debt. This agreement converts a portion of our revolving credit facility floating rate debt into fixed rate debt on a notional amount of \$8.5 million and ends on June 30, 2013. The notional amounts of derivative instruments do not represent actual amounts exchanged between the parties, but instead represent amounts on which the contracts are based. The floating interest rate payments under this swap are based on three-month LIBOR rates. We do not account for this agreement as a hedge.



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The following table sets forth our open commodity derivative contract positions at September 30, 2011 and March 31, 2011. We do not account for these derivatives as hedges.

<b>Underlying Contracts</b>	<b>Period</b>		<b>Total Notional Units</b>	<b>Type (P) = Purchase (S) = Sale</b>	<b>Price Per Gallon</b>
<b>As of September 30, 2011 -</b>					
OPIS Conway (Propane)	May 2011	Mar 2012	9,000 BBL	Swap (P)	\$ 1.43500
OPIS Conway (Propane)	May 2011	June 2012	60,000 BBL	Swap (S)	\$ 1.26000
OPIS Conway (Propane)	May 2011	Dec 2012	75,000 BBL	Swap (P)	\$ 1.30000
OPIS Conway (Propane)	June 2011	Mar 2012	33,000 BBL	Swap (P)	\$ 1.43875
OPIS Conway (Propane)	June 2011	Sept 2011	30,000 BBL	Swap (S)	\$ 1.42000
OPIS Conway (Propane)	June 2011	Apr 2012	100,000 BBL	Swap (S)	\$ 1.28000
OPIS Conway (Propane)	June 2011	Dec 2012	100,000 BBL	Swap (P)	\$ 1.32250
OPIS Conway (Propane)	June 2011	Mar 2012	15,000 BBL	Swap (P)	\$ 1.36250
OPIS Conway (Propane)	June 2011	Mar 2012	6,000 BBL	Swap (S)	\$ 1.47000
OPIS Conway (Propane)	Sept 2011	Mar 2012	38,000 BBL	Swap (P)	\$ 1.43500
OPIS Conway (Normal Butane)	Aug 2011	Sept 2011	5,000 BBL	Swap (S)	\$ 1.63000
OPIS Mt. Belvieu (Propane)	Mar 2011	Sept 2011	15,000 BBL	Swap (S)	\$ 1.43000
OPIS Mt. Belvieu (Propane)	May 2011	Nov 2012	5,000 BBL	Swap (P)	\$ 1.35500
OPIS Mt. Belvieu (Propane)	Sept 2011	Dec 2011	24,000 BBL	Swap (S)	\$ 1.56000
OPIS Mt. Belvieu (Propane)	Sept 2011	Feb 2012	20,000 BBL	Swap (P)	\$ 1.62000
OPIS Mt. Belvieu (Propane)	June 2010	Dec 2011	4,000 BBL	Swap (P)	\$ 0.98000
Conway - WIL (Propane)	Dec 2011	Dec 2011	11,905 BBL	Physical Cap (P)	\$ 1.53000
Janesville - MAP (Propane)	June 2011	Dec 2011	11,905 BBL	Physical Cap (S)	\$ 1.62780
<b>As of March 31, 2011 -</b>					
OPIS Conway (Propane)	Nov 2010	Apr 2011	25,000 BBL	Swap (S)	1.10500
OPIS Conway (Propane)	Nov 2010	Oct 2011	90,000 BBL	Swap (P)	1.13500
OPIS Conway (Propane)	Dec 2010	June 2011	30,000 BBL	Swap (S)	1.12500
OPIS Conway (Propane)	Jan 2011	June 2011	75,000 BBL	Swap (S)	1.15000
OPIS Conway (Propane)	Jan 2011	Dec 2011	75,000 BBL	Swap (P)	1.20500
OPIS Conway (Propane)	Jan 2011	Dec 2011	225,000 BBL	Swap (P)	1.21375
OPIS Conway (Propane)	Feb 2011	June 2011	225,000 BBL	Swap (S)	1.16000
OPIS Mt. Belvieu (Propane)	Mar 2011	Sept 2011	45,000 BBL	Swap (S)	1.43000
OPIS Mt. Belvieu (Propane)	June 2010	Dec 2011	4,000 BBL	Swap (P)	0.98000



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**NGL ENERGY PARTNERS LP**

**AND NGL SUPPLY, INC.**

**Notes to Unaudited Condensed Consolidated Financial Statements**

**As of September 30, 2011 and March 31, 2011 and for the**

**Three Months and the Six Months Ended September 30, 2011 and 2010**

We recorded the following net gains (losses) from our commodity and interest rate derivatives during the periods indicated:

	<b>Three Months Ended September 30,</b>		<b>Six Months Ended September 30,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
	<b>(in thousands)</b>			
Commodity contracts -				
Unrealized gain (loss)	\$ 1,384	\$ 317	\$ (862)	\$ (200)
Realized gain (loss)	(890)	141	1,327	426
Interest rate swaps	(9)		(287)	
<b>Total</b>	<b>\$ 485</b>	<b>\$ 458</b>	<b>\$ 178</b>	<b>\$ 226</b>

The commodity contract gains and losses are included in cost of sales of our wholesale supply and marketing segment in the consolidated statements of operations. The gain or loss on the interest rate contracts is recorded in interest expense.

*Credit Risk*

We maintain credit policies with regard to our counterparties on the derivative financial instruments that we believe minimize our overall credit risk, including an evaluation of potential counterparties' financial condition (including credit ratings), collateral requirements under certain circumstances and the use of standardized agreements, which allow for netting of positive and negative exposure associated with a single counterparty.

Our counterparties consist primarily of financial institutions and major energy companies. This concentration of counterparties may impact our overall exposure to credit risk, either positively or negatively, in that the counterparties may be similarly affected by changes in economic, regulatory or other conditions. Based on our policies, exposures, credit and other reserves, we do not anticipate a material adverse effect on our financial position or results of operations as a result of counterparty performance.

For financial instruments, failure of a counterparty to perform on a contract could result in our inability to realize amounts that have been recorded on our consolidated statements of financial position and recognized in our net income.

**Note 12 - Segments**

We have three operating segments, two of which conduct their business exclusively in the United States, while our midstream terminal operations are conducted in the United States and, to a lesser extent, Canada. We evaluate our operating segments' performance based on gross margin and operating income and EBITDA. Our segments and their respective financial information are as follows:



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	Three Months Ended September 30,		Six Months Ended September 30,	
	2011	2010	2011	2010
<b>Revenues:</b>				
<b>Retail propane</b>				
Propane sales	\$ 16,062	\$ 4,374	\$ 26,256	\$ 6,128
Sales of parts and fittings and water-softeners	1,680	142	3,120	256
Propane service and water-softener and tank rental revenues	1,483	211	2,701	484
<b>Wholesale supply and marketing</b>				
Wholesale supply sales	203,111	155,513	387,947	315,364
Storage revenues	443	631	760	959
Midstream	686	629	1,182	1,046
Elimination of intersegment wholesale supply sales	(13,424)	(4,849)	(21,080)	(7,294)
<b>Total revenues</b>	<b>\$ 210,041</b>	<b>\$ 156,651</b>	<b>\$ 400,886</b>	<b>\$ 316,943</b>
<b>Gross Margin:</b>				
<b>Retail propane</b>				
Propane sales	\$ 4,150	\$ 1,128	\$ 7,364	\$ 1,638
Sales of parts and fittings and water-softeners	384	(5)	698	(3)
Propane service and water-softener and tank rental revenues	1,483	211	2,701	484
<b>Wholesale supply and marketing</b>				
Wholesale supply sales	1,543	1,465	954	2,105
Storage revenues	443	631	760	959
Midstream	584	528	982	852
<b>Total gross margin</b>	<b>\$ 8,587</b>	<b>\$ 3,958</b>	<b>\$ 13,459</b>	<b>\$ 6,035</b>
<b>Depreciation and Amortization:</b>				
<b>Retail propane</b>				
Propane sales	\$ 1,388	\$ 436	\$ 2,455	\$ 870
<b>Wholesale supply and marketing</b>				
Wholesale supply sales	100	27	198	98
<b>Midstream</b>				
Midstream	213	211	425	421
<b>Total depreciation and amortization</b>	<b>\$ 1,701</b>	<b>\$ 674</b>	<b>\$ 3,078</b>	<b>\$ 1,389</b>
<b>Operating Income (Loss):</b>				
<b>Retail propane</b>				
Propane sales	\$ (3,098)	\$ (1,052)	\$ (6,292)	\$ (2,569)
<b>Wholesale supply and marketing</b>				
Wholesale supply sales	279	711	(1,414)	567
<b>Midstream</b>				
Midstream	(6)	273	21	298
General and administrative expenses not allocated to segments	(1,703)	(1,420)	(2,526)	(2,091)
<b>Total operating loss</b>	<b>\$ (4,528)</b>	<b>\$ (1,488)</b>	<b>\$ (10,211)</b>	<b>\$ (3,795)</b>
<b>Other items not allocated by segment:</b>				
Interest income	99	25	225	66
Interest expense	(1,012)	(300)	(2,313)	(372)
Other income, net	46	19	131	124
Income tax benefit		627		1,417

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Net loss	\$	(5,395)	\$	(1,117)	\$	(12,168)	\$	(2,560)
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### Geographic Information for our Midstream Segment:

#### Revenues:

United States	\$	655	\$	592	\$	1,108	\$	975
Canada		31		37		74		71

#### Gross margin:

United States	553	492	908	782
Canada	31	36	74	70

#### Operating income (loss):

United States	128	312	224	423
Canada	(134)	(39)	(203)	(125)

#### Additions to property, plant and equipment including acquisitions (accrual basis):

Retail propane	\$	2,340	\$	126	\$	3,056	\$	265
Wholesale supply and marketing		34		15		228		15
Total	\$	2,374	\$	141	\$	3,284	\$	280

#### Total assets:

Retail propane	\$	81,313	\$	78,566
Wholesale supply and marketing		153,981		57,507
Midstream		18,026		19,279
Corporate		8,953		8,481
Total	\$	262,273	\$	163,833

#### Long-lived assets, net:

Retail propane	\$	60,463	\$	58,997
Wholesale supply and marketing		4,157		4,537
Midstream		17,894		18,446
Corporate		5,641		4,363
Total	\$	88,155	\$	86,343

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**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

The following is a discussion of our financial condition and results of operations as of and for the three months and six months ended September 30, 2011. The discussion should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and the historical consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended March 31, 2011.

**Overview**

We are a Delaware limited partnership formed in September 2010. We had no operations through September 30, 2010. As part of our formation, in October 2010, we acquired and combined the assets and operations of NGL Supply, primarily a wholesale propane and terminaling business founded in 1967, and Hicksgas, primarily a retail propane business founded in 1940. We do not have our own historical financial statements for periods prior to our formation. The financial statements of NGL Supply became our historical financial statements for all periods prior to October 1, 2010.

We own and, through our subsidiaries, operate a vertically integrated propane business with three operating segments: retail propane; wholesale supply and marketing; and midstream. We engage in the following activities through our operating segments:

- our retail propane business sells propane to end users consisting of residential, agricultural, commercial and industrial customers;
- our wholesale supply and marketing business supplies propane and other natural gas liquids and provides related storage to retailers, wholesalers and refiners; and
- our midstream business, which currently consists of our propane terminaling business, takes delivery of propane from pipelines and trucks at our propane terminals and transfers the propane to third-party transport trucks for delivery to retailers, wholesalers and other customers.

Our businesses represent a combination of margin-based, cost-plus and fee-based revenue generating operations. Our retail propane business generates margin-based revenues, meaning our gross margin depends on the difference between our propane sales price and our total propane supply cost.

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Our wholesale supply and marketing business generates cost-plus revenues. Cost-plus represents our aggregate total propane supply cost plus a margin to cover our replacement cost consisting of cost of capital, storage, transportation, fuel surcharges and an appropriate competitive margin. The margins we realize in our wholesale business are substantially less as a percentage of revenues or on a per gallon basis than our retail propane business. We attempt to reduce our exposure to the impact of price fluctuations by using back-to-back contractual agreements and pre-sale agreements which essentially allow us to lock in a margin on a percentage of our winter volumes.

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Our midstream business generates fee-based revenues derived from a cents-per-gallon charge for the transfer of propane volumes, or throughput, at our propane terminals. Our midstream business is impacted primarily by throughput volumes at our three propane terminals. Throughput volumes are impacted by weather, agricultural uses of propane and general economic conditions, all of which are beyond our control. We are able to somewhat mitigate the potential decline in throughput volumes by preselling volumes to customers at our terminals in advance of the demand period through our wholesale supply and marketing segment.

Historically, the principal factors affecting each of our businesses have been propane demand and our cost of supply, as well as our ability to maintain or expand our realized margin from our margin-based and cost-plus operations.

*Seasonality*

Seasonality has a significant impact on propane demand which impacts all of our segments, but the most significant impact is on our retail propane segment. A large portion of our retail propane operation is in the residential market where propane is used primarily for heating purposes. Approximately 70 - 75% of our retail propane volume is sold during the peak heating season from October through March. Seasonal volume variations also impact our wholesale supply and marketing and midstream segments. Consequently, our sales, operating profits and positive operating cash flows are generated mostly in the third and fourth quarters of each fiscal year. We have historically realized operating losses and negative operating cash flows during our first and second fiscal quarters. See Liquidity, Sources of Capital and Capital Resource Activities Cash Flows.

*Propane Price Fluctuations*

Fluctuations in the price of propane can have a direct impact on our reported revenues and sales volumes and may affect our gross margins depending on our success of passing cost increases on to our retail propane and wholesale supply and marketing customers. At Conway, Kansas, one of our main pricing hubs, the range of low and high-spot propane prices per gallon for the periods indicated and the prices as of period end were as follows:

		Range of Conway, Kansas			
		Spot Price		Spot Price	
		Per Gallon		Per Gallon	
		Low	High	At Period End	
For the Six Months Ended September 30,					
2011	\$	1.2763	\$	1.4900	\$ 1.4269
2010		0.8813		1.1625	1.1625
For the Three Months Ended September 30,					
2011	\$	1.3663	\$	1.4750	\$ 1.4269
2010		0.8813		1.1625	1.1625

Historically, we have been successful in passing on price increases to our customers. We monitor propane prices daily and adjust our retail prices to maintain expected margins by passing on the wholesale costs to our customers. We believe that volatility in commodity prices will continue, and our ability to adjust to and manage this volatility may impact our financial results.



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In periods of significant propane price increases we have experienced, and expect to continue to experience conservation of propane used by our customers that could result in a decline in our sales volumes, revenues and gross margins of each of our operating segments. In periods of decreasing costs, we have experienced an increase in our gross margin.

**Recent Developments**

The following transactions that occurred during the period since our formation in October 2010 impact the comparability of our results of operations for the three months and six months ended September 30, 2011 and 2010:

***Acquisition of Hicksgas***

On October 14, 2010, we purchased the propane-related assets and assumed certain related obligations from Hicksgas for a combination of our limited partner interests and payment of approximately \$17.2 million, a total consideration, including assumed liabilities, of approximately \$61.6 million. Hicksgas was founded in 1940 as a retail propane operation and significantly increased its retail propane volumes through acquisitions.

***Revolving Credit Facility***

On October 14, 2010, we entered into a revolving credit facility with a group of lenders. The revolving credit facility, as amended in January, February, April, May, and August 2011, provides for a total credit facility of \$330 million, represented by a \$130 million working capital facility and a \$200 million acquisition facility. Borrowings under the working capital facility are subject to a defined borrowing base. See Liquidity, Sources of Capital and Capital Resource Activities for further discussion of our credit facility.

***Initial Public Offering***

During May 2011, we sold a total of 4,025,000 common units (including exercise by the underwriters of their option to purchase additional common units from us) in our initial public offering at \$21 per unit. Our proceeds from the sale of 3,850,000 common units of approximately \$72.0 million, net of total offering costs of approximately \$9.0 million, were used to repay advances under our acquisition credit facility and for general partnership purposes. Proceeds from the sale of 175,000 common units (\$3.4 million) from the underwriters' exercise of their option to purchase additional common units from us were used to redeem 175,000 of the common units outstanding prior to our initial public offering.

***Events Subsequent to September 30, 2011***

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The following transactions occurred subsequent to September 30, 2011 and are expected to have a significant impact on our future results of operations:

### *Osterman Combination*

On October 3, 2011, we closed our business combination with Osterman in which we acquired substantially all of the retail propane assets of Osterman in exchange for 4 million of our common units and a payment of \$96 million. We funded the cash payment with advances under our acquisition facility. There may be additional payments required due to a working capital adjustment



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provision in the agreement. See Note 3 to our consolidated financial statements for additional information on the Osterman combination. Osterman's operations are located in the northeastern United States.

We expect that, on an annual basis, the Osterman combination will significantly expand our retail propane operations, increasing our sales volumes, revenues, gross margin and operating income over the levels we have achieved in prior periods. The acquisition will also result in an increase in our interest expense in future periods due to the utilization of our acquisition facility to fund the contribution.

*SemGroup Combination*

On November 1, 2011, we closed our business combination with SemStream in which we acquired substantially all of the operating assets of SemStream, consisting primarily of natural gas liquids terminals in Arizona, Arkansas, Indiana, Minnesota, Missouri, Montana, Washington and Wisconsin, as well as significant owned and leased storage facilities and rail cars, as well as approximately \$100 million in natural gas liquids inventory. We issued approximately 8.9 million common units and made a cash payment of approximately \$93 million. There may be additional payments required due to a working capital adjustment provision in the agreement. In addition, SemStream made a cash contribution for a 7.5% interest in our general partner.

We expect that, on an annual basis, the SemStream acquisition will significantly expand our midstream operations through an increase in our fee-based revenues, as well as the gross margin and operating income of our midstream operations in future periods over the levels we have achieved previously. We expect these operations to also complement our wholesale supply and marketing operations. The acquisition will also result in an increase in our interest expense in future periods due to the utilization of our acquisition and working capital facilities to fund the combination.

**Consolidated Results of Operations**

The following table summarizes our historical consolidated statements of operations for the three months and six months ended September 30, 2011, and NGL Supply's consolidated statements of operations for the three months and six months ended September 30, 2010.

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	NGL Energy Partners LP Three Months Ended September 30, 2011	NGL Supply, Inc. Three Months Ended September 30, 2010	NGL Energy Partners LP Six Months Ended September 30, 2011	NGL Supply, Inc. Six Months Ended September 30, 2010
	(in thousands)			
Operating revenues	\$ 210,041	\$ 156,651	\$ 400,886	\$ 316,943
Cost of sales	201,454	152,693	387,427	310,908
Gross margin	8,587	3,958	13,459	6,035
Operating and general and administrative expenses	11,414	4,772	20,592	8,441
Depreciation and amortization	1,701	674	3,078	1,389
Operating loss	(4,528)	(1,488)	(10,211)	(3,795)
Interest expense	(1,012)	(300)	(2,313)	(372)
Interest and other income	145	44	356	190
Loss before income taxes	(5,395)	(1,744)	(12,168)	(3,977)
Benefit for deferred income taxes		627		1,417
Net loss	(5,395)	(1,117)	(12,168)	(2,560)
Net loss allocated to General Partner	5		12	
Net loss attributable to non-controlling interests		16		45
Net loss allocated to Limited Partners or net loss attributable to Parent Equity	\$ (5,390)	\$ (1,101)	\$ (12,156)	\$ (2,515)

All information herein related to the three months and six months ended September 30, 2010 represents the results of operations of NGL Supply.

See the detailed discussion of revenues, cost of sales, gross margin, operating expenses, general and administrative expenses, depreciation and amortization and operating income by operating segment below.

Set forth below is a discussion of significant changes in the non-segment related corporate other income and expenses during the respective periods.

### ***Interest Expense***

Our interest expense consists of interest on borrowings under a revolving credit facility, letter of credit fees and amortization of debt issuance costs. See Note 7 to our condensed consolidated financial statements included elsewhere in this interim report for additional information on our long-term debt. The increase in interest expense during the periods presented is due to increases in the average outstanding total debt balance, the average interest rate, amortization of debt issuance costs and letter of credit fees as follows (dollars in thousands):

Letter of	Amortization	Average Total Debt	Average
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	<b>Credit Fees</b>	<b>of Debt Issuance Costs</b>	<b>Balance Outstanding</b>	<b>Interest Rate</b>
<b>Three Months Ended September 30,</b>				
2011	\$ 134	\$ 303	\$ 25,250	5.23%
2010	6	21	20,446	4.93%
<b>Six Months Ended September 30,</b>				
2011	\$ 242	\$ 655	\$ 34,810	5.13%
2010	16	43	13,854	4.50%

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The increased levels of debt outstanding during the three months and six months ended September 30, 2011 are due to borrowings to finance the acquisition of Hicksgas and borrowings to finance our seasonal inventory build-up.

***Interest and Other Income***

Our non-operating other income consists of the following:

	Three Months Ended September 30, 2011		2010		Six Months Ended September 30, 2011		2010	
	(in thousands)							
Interest income	\$	99	\$	25	\$	225	\$	66
Gain on sale of assets		46		19		46		124
Other						85		
	\$	145	\$	44	\$	356	\$	190

***Income Tax Provision***

The income tax provision of NGL Supply fluctuates based on the level of realized pretax income. As a percentage of pretax income, the variance from the expected or statutory rate of 35% is due to the effects of state income taxes and a valuation allowance recorded each period related to the losses incurred by the propane terminal in St. Catharines, Ontario, which we refer to as Gateway, which NGL Supply owned 70% through September 30, 2010.

***Non-Controlling Interests***

Non-controlling interests represent the 30% of Gateway NGL Supply did not own through September 30, 2010. The operations of Gateway have historically resulted in net losses.

***Non-GAAP Financial Measures***

The following tables reconcile net loss or net loss to parent equity to our EBITDA and Adjusted EBITDA, each of which are non-GAAP financial measures, for the periods indicated:

Three Months Ended September 30,

Six Months Ended September 30,

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	2011	2010	2011	2010
	(in thousands)			
<b>EBITDA:</b>				
Net loss or net loss to parent equity	\$ (5,395)	\$ (1,101)	\$ (12,168)	\$ (2,515)
Benefit for income taxes		(627)		(1,417)
Interest expense	1,012	300	2,313	372
Depreciation and amortization	1,901	874	3,478	1,789
EBITDA	\$ (2,482)	\$ (554)	\$ (6,377)	\$ (1,771)
Unrealized (gain) loss on derivative contracts	(1,384)	(317)	862	200
Gain on sale of assets	(46)	(19)	(46)	(124)
Adjusted EBITDA	\$ (3,912)	\$ (890)	\$ (5,561)	\$ (1,695)

We define EBITDA as net income (loss) or net income (loss) attributable to parent equity, plus income taxes, interest expense and depreciation and amortization expense. We define Adjusted

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EBITDA as EBITDA excluding the unrealized gain or loss on derivative contracts, the gain or loss on the disposal of assets and share-based compensation expenses. EBITDA and Adjusted EBITDA should not be considered an alternative to net income, income before income taxes, cash flows from operating activities, or any other measure of financial performance calculated in accordance with GAAP as those items are used to measure operating performance, liquidity or the ability to service debt obligations. We believe that EBITDA provides additional information for evaluating our ability to make quarterly distributions to our unitholders and is presented solely as a supplemental measure. We believe that Adjusted EBITDA provides additional information for evaluating our financial performance without regard to our financing methods, capital structure and historical cost basis. Further, EBITDA and Adjusted EBITDA, as we define them, may not be comparable to EBITDA and Adjusted EBITDA or similarly titled measures used by other entities.

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**Segment Operating Results**

*Items Impacting the Comparability of Our Financial Results*

Our current and future results of operations may not be comparable to the historical results of operations of NGL Supply for the periods presented due to the following reasons:

- At September 30 and March 31, 2011, and for the three month and six month periods ended September 30, 2011, our retail propane operations included the retail propane operations that we acquired from Hicksgas in the formation transactions in October 2010. The historical results of operations of NGL Supply for the three months and six months ended September 30, 2010 do not include these acquired operations.
- NGL Supply's historical consolidated financial statements include U.S. federal and state income tax expense. Because we have elected to be treated as a partnership for tax purposes, we are not subject to U.S. federal income tax and certain state income taxes.
- As a result of our initial public offering, we anticipate incurring incremental general and administrative expenses of approximately \$1.0 million annually that are attributable to operating as a publicly traded partnership. These expenses will include annual and quarterly reporting; tax return and Schedule K-1 preparation and distribution expenses; Sarbanes-Oxley compliance expenses; expenses associated with listing on the NYSE; independent auditor fees; legal fees; investor relations expenses; registrar and transfer agent fees; director and officer liability insurance costs; and director compensation. These incremental general and administrative expenses are not reflected in the historical consolidated financial statements of NGL Supply.

After we completed the formation transactions, and in accordance with GAAP, the financial statements of NGL Supply became our financial statements for all periods prior to October 1, 2010, the net equity (net book value) of NGL Supply became our equity and the net book value of all of the assets and liabilities of NGL Supply became the accounting basis for our assets and liabilities. There were no adjustments to the carryover basis of the assets and liabilities that we acquired from NGL Supply. Consequently, we believe that, other than the impact of the acquisition of Hicksgas (as discussed in the following paragraph), our operations for periods prior to October 1, 2010 would have been comparable to the historical results of operations of NGL Supply.

In connection with our formation transactions, we also acquired the retail propane operations of Hicksgas. This acquisition was accounted for as a business combination, and the assets acquired and liabilities assumed were recorded in our consolidated financial statements at acquisition date fair value.

Our results of operations are significantly impacted by seasonality, primarily due to the increase in volumes of propane sold by our retail and wholesale segments during the peak heating season of October through March, as well as the increase in terminal throughput volumes during the heating season. In addition, propane price fluctuations can have a significant impact on our sales volumes in all of our segments. As a result of

our business combination with NGL Supply and



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Hicksgas in October 2010 and the impact of seasonality, our results of operations for the three months and six months ended September 30, 2011 are not indicative of the results we would anticipate for a full fiscal year, and are not comparable to the results of operations of NGL Supply for the three months and six months ended September 30, 2010.

**Three Months Ended September 30, 2011 and 2010*****Volumes Sold or Throughput***

The following table summarizes the volume of gallons sold by our retail propane and wholesale supply and marketing segments and the throughput volume for our midstream segment for the three months ended September 30, 2011, and 2010, respectively:

Segment	Three Months Ended September 30,		Acquisition of Hicksgas	Change Resulting From Change in Pre-Existing Business	
	2011	2010		Volume	Percentage
Retail propane	7,961	2,753	5,449	(241)	(8.8)%
Wholesale supply and marketing	129,121	137,186		(8,065)	(5.9)%
Midstream	28,256	26,119		2,137	8.2%
Total	165,338	166,058	5,449	(6,169)	(3.7)%

Our retail propane sales volumes for the three months ended September 30, 2011 increased 5.2 million gallons as compared to sales of 2.8 million gallons during the three months ended September 30, 2010. This increase is due primarily to the impact of our Hicksgas acquisition in October 2010. During the three months ended September 30, 2011, Hicksgas had retail sales of 5.4 million gallons. The decrease of 0.24 million gallons from our pre-existing business is due to a decline in sales of approximately 0.25 million gallons in our Georgia operation resulting from reduced demand for propane for tobacco drying purposes during the three months ended September 30, 2011 as compared to the three months ended September 30, 2010.

Sales of our wholesale supply and marketing segment for the three months ended September 30, 2011 decreased 8.1 million gallons as compared to sales of 137.2 million gallons for the three months ended September 30, 2010. This decrease in sales volume is due primarily to a decrease in purchases for storage by our wholesale customers and a reduced level of liftings from storage by our pre-sale customers.

Terminal throughput of our midstream segment for the three months ended September 30, 2011 increased 2.1 million gallons as compared to throughput of 26.1 million gallons during the three months ended September 30, 2010. This increase is due primarily to the impact of favorable regional demand/supply variations and price factors.

Table of Contents**Operating Income (Loss) by Segment**

Our operating income (loss) by segment is as follows:

Segment	Three Months Ended September 30,		Change
	2011	2010 (in thousands)	
Retail propane	\$ (3,098)	\$ (1,052)	\$ (2,046)
Wholesale supply and marketing	279	711	(432)
Midstream	(6)	273	(279)
Corporate general and administrative expenses	(1,703)	(1,420)	(283)
Operating loss	\$ (4,528)	\$ (1,488)	\$ (3,040)

Corporate general and administrative expenses increased \$0.3 million during the three months ended September 30, 2011 compared to corporate general and administrative expenses of \$1.4 million during the three months ended September 30, 2010. This increase is due primarily to the costs of being a public company.

**Retail Propane**

The following table compares the operating results of our retail propane segment for the periods indicated:

	Three Months Ended September 30,		Change Resulting From	
	2011	2010 (in thousands)	Acquisition of Hicksgas	Change in Pre-Existing Business
Propane sales	\$ 16,062	\$ 4,374	\$ 11,002	\$ 686
Parts, fittings, appliance and other sales	1,680	142	1,556	(18)
Service and rental income	1,483	211	1,205	67
Cost of sales - propane	(11,912)	(3,246)	(8,078)	(588)
Cost of sales - other sales	(1,296)	(147)	(1,199)	50
Gross margin	6,017	1,334	4,486	197
Operating expenses	6,230	1,681	4,386	(163)
General and administrative expenses	1,497	269	700	(528)
Depreciation and amortization	1,388	436	919	(33)
Segment operating loss	\$ (3,098)	\$ (1,052)	\$ (1,519)	\$ (527)

**Revenues.** Propane sales for the three months ended September 30, 2011 increased \$11.7 million as compared to retail propane sales of \$4.4 million during the three months ended September 30, 2010. This increase is due primarily to the impact of our Hicksgas acquisition in October 2010. Hicksgas had retail propane sales of \$11.0 million for the three months ended September 30, 2011, consisting of 5.4 million

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gallons at an average selling price of \$2.02 per gallon. Excluding the impact of Hicksgas, our pre-existing business had an increase in propane sales of \$0.7 million during the three months ended September 30, 2011, represented by an increase in sales of \$1.1 million from price increases and a decrease in sales of \$0.4 million from reduced sales volumes. Overall, our average sales price for the three months ended September 30, 2011 was \$2.02 per gallon, compared to \$1.59 per gallon during the three months ended September 30, 2010. The price

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increase reflects the overall increase in the propane spot price during the three months ended September 30, 2011 as compared to the same period in 2010.

*Cost of Sales.* Propane cost of sales for the three months ended September 30, 2011 increased \$8.7 million as compared to propane cost of sales of \$3.2 million during the three months ended September 30, 2010. This increase is due primarily to the impact of our Hicksgas acquisition in October 2010. Hicksgas had propane cost of sales of \$8.1 million during the three months ended September 30, 2011, an average cost of \$1.48 per gallon. Excluding the impact of Hicksgas, our pre-existing business had an increase in cost of sales of \$0.6 million during the three months ended September 30, 2011 as compared to the same period in 2010. This increase is due to an increase in cost of sales of \$0.9 million as a result of the increase in the propane cost, offset by a \$0.3 million decrease in cost of sales resulting from a decrease in volumes sold.

*Gross Margin.* Gross margin of our retail propane operation increased \$4.7 million during the three months ended September 30, 2011 as compared to gross margin of \$1.3 million during the three months ended September 30, 2010. This increase is due primarily to the impact of our Hicksgas acquisition in October 2010. Hicksgas had a total gross margin of \$4.5 million during the three months ended September 30, 2011, of which \$3.0 million related to propane sales. Excluding the impact of Hicksgas, the gross margin of our pre-existing business increased \$0.2 million, due primarily to the increased gross margin from propane sales of \$0.1 million.

*Operating Expenses.* Operating expenses of our retail propane segment increased \$4.5 million during the three months ended September 30, 2011 compared to operating expenses of \$1.7 million during the three months ended September 30, 2010. This increase is due primarily to the impact of our Hicksgas acquisition in October 2010. During the three months ended September 30, 2011, Hicksgas had operating expenses of \$4.4 million. The increase in operating expenses of our pre-existing business was not material.

*General and Administrative Expenses.* General and administrative expenses of our retail propane segment increased \$1.2 million during the three months ended September 30, 2011 compared to general and administrative expenses of \$0.3 million during the three months ended September 30, 2010. This increase is due to an increase of \$0.7 million resulting from the impact of our Hicksgas acquisition in October 2010 and an increase of \$0.5 million in our pre-existing business. The increase of \$0.5 million relates primarily to the impact of costs incurred in connection with acquisitions of retail propane operations, primarily our acquisition of Osterman. GAAP requires that we expense any such acquisition-related costs that are not part of the acquisition agreement. We record such costs as general and administrative expenses in our financial statements. During the three months ended September 30, 2011, we expensed a total of \$0.6 million of acquisition-related costs.

*Depreciation and Amortization.* Depreciation and amortization expense of our retail propane segment increased \$1.0 million during the three months ended September 30, 2011 as compared to depreciation and amortization expense of \$0.4 million during the three months ended September 30, 2010. This increase is due primarily to the impact of our Hicksgas acquisition in October 2010. Hicksgas had depreciation and amortization expense of \$0.9 million during the three months ended September 30, 2011.

*Operating Loss.* Our retail propane segment had an operating loss of approximately \$3.1 million during the three months ended September 30, 2011 as compared to an operating loss of \$1.1 million during the three months ended September 30, 2010. This increased operating loss of \$2.0



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million is due to an operating loss of Hicksgas of \$1.5 million for the three months ended September 30, 2011 and an increased loss of our pre-existing business of \$0.5 million during the three months ended September 30, 2011 as compared to the same period in 2010. The increased operating loss of our pre-existing business is due to the net impact of an increased gross margin of \$0.2 million offset by an increased expense of \$0.6 million related to acquisition costs that cannot be capitalized under GAAP.

**Wholesale Supply and Marketing**

The following table compares the operating results of our wholesale supply and marketing segment for the periods indicated:

	<b>Three Months Ended September 30,</b>		<b>Change in</b>
	<b>2011</b>	<b>2010</b>	<b>Pre-Existing</b>
	<b>(in thousands)</b>		<b>Business</b>
Wholesale supply sales	\$ 203,111	\$ 155,513	\$ 47,598
Storage revenues	443	631	(188)
Cost of sales	(201,568)	(154,048)	(47,520)
Gross margin	1,986	2,096	(110)
Operating expenses	986	965	(21)
General and administrative expenses	621	393	(228)
Depreciation and amortization	100	27	(73)
Segment operating income (loss)	\$ 279	\$ 711	\$ (432)

*Revenues.* Wholesale sales increased \$47.6 million during the three months ended September 30, 2011 as compared to wholesale sales of \$155.5 million during the three months ended September 30, 2010. Wholesale sales increased \$60.3 million as a result of an increase in our average wholesale sales price from \$1.13 per gallon during the three months ended September 30, 2010 to \$1.57 per gallon during the three months ended September 30, 2011. This increase in average sales price is due to the overall increase in the spot price of propane during the respective periods. The increase in wholesale sales from increased prices was reduced by a decrease in sales of \$12.7 million from the effects of the decrease in sales volume during the three months ended September 30, 2011 as compared to the same period in 2010.

*Cost of Sales.* Wholesale cost of sales increased \$47.5 million during the three months ended September 30, 2011 as compared to wholesale cost of sales of \$154.0 million during the three months ended September 30, 2010. The increase is due to an increase of \$60.1 million due to an increase in our propane cost from \$1.12 per gallon during the three months ended September 30, 2010 to \$1.56 per gallon during the three months ended September 30, 2011. The increase in cost of sales resulting from propane price increases was reduced by a decrease in cost of sales of \$12.6 million resulting from the decrease in sales volume during the respective periods.

*General and Administrative Expenses.* General and administrative expenses of our wholesale supply and marketing segment increased \$0.2 million during the three months ended September 30, 2011 as compared to general and administrative expenses of \$0.4 million during the three months ended September 30, 2010. This increase is due primarily to acquisition costs of approximately \$0.4 million related to our SemStream acquisition that were incurred during the three months ended September 30, 2011. There were no such costs during the same time period in 2010.



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*Operating Loss.* Our wholesale supply and marketing segment had an operating income of \$0.3 million during the three months ended September 30, 2011 as compared to operating income of \$0.7 million during the three months ended September 30, 2010, a decrease of \$0.4 million. This decrease is due primarily to a decrease in gross margin of \$0.1 million and an increase in general and administrative expenses of \$0.2 million.

**Midstream**

The following table compares the operating results of our midstream segment for the periods indicated:

	Three Months Ended September 30,		Change in	
	2011	2010	Pre-Existing	
	(in thousands)		Business	
Operating revenues	\$ 686	\$ 629	\$	57
Cost of sales	(102)	(101)		(1)
Gross margin	584	528		56
Other operating expenses	34	21		(13)
General and administrative expenses	343	23		(320)
Depreciation and amortization	213	211		(2)
Segment operating income (loss)	\$ (6)	\$ 273	\$	(279)

*Revenues and Gross Margin.* Operating revenues and gross margin of our midstream segment increased during the three months ended September 30, 2011 as compared to the three months ended September 30, 2010 as a result of an increase in terminal throughput.

*Operating and General and Administrative Expenses.* Operating and general and administrative expenses of our midstream segment increased \$0.3 million during the three months ended September 30, 2011 as compared to operating and general and administrative expenses of \$0.04 million during the three months ended September 30, 2010. This increase is due to an increase of approximately \$0.1 million in compensation expenses resulting from an increase in employees and an increase resulting from acquisition costs of our SemStream acquisition of approximately \$0.2 million.

*Operating Income (Loss).* Our midstream segment had an operating loss of \$6,000 during the three months ended September 30, 2011 as compared to operating income of \$0.3 million during the three months ended September 30, 2010. This decrease in our midstream segment operating income is due primarily to the impact of higher compensation costs related to an increase in employees and the acquisition costs of our SemStream acquisition that are charged to expense.



Table of Contents**Six Months Ended September 30, 2011 and 2010***Volumes Sold or Throughput*

The following table summarizes the volume of gallons sold by our retail propane and wholesale supply and marketing segments and the throughput volume for our midstream segment for the six months ended September 30, 2011, and 2010, respectively:

Segment	Six Months Ended September 30,		Acquisition of Hicksgas (gallons in thousands)	Change Resulting From Change in Pre-Existing Business	
	2011	2010		Volume	Percentage
Retail propane	12,964	3,747	9,198	19	0.5%
Wholesale supply and marketing	250,265	272,422		(22,157)	(8.1)%
Midstream	49,259	43,704		5,555	12.7%
Total	312,488	319,873	9,198	(16,583)	(5.2)%

Our retail propane sales volumes for the six months ended September 30, 2011 increased 9.2 million gallons as compared to sales of 3.7 million gallons during the six months ended September 30, 2010 due entirely to the impact of our Hicksgas acquisition in October 2010. Hicksgas had retail sales of 9.2 million gallons during the six months ended September 30, 2011. The increased sales of our pre-existing business during the six months ended September 30, 2011 were not significant.

Sales of our wholesale supply and marketing segment decreased 22.2 million gallons during the six months ended September 30, 2011 as compared to sales of 272.4 million gallons during the six months ended September 30, 2010. This decrease in sales is due primarily to a decrease in purchases for storage by our wholesale customers and a reduced level of liftings from storage by our pre-sale customers.

Terminal throughput of our midstream segment for the six months ended September 30, 2011 increased 5.6 million gallons as compared to throughput of 43.7 million gallons during the six months ended September 30, 2010. The increase in throughput volume is due primarily to the impact of favorable regional demand/supply variations and price factors.

*Operating Income (Loss) by Segment*

Our operating income (loss) by segment is as follows:

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Segment	Six Months Ended September 30,		Change
	2011	2010	
	(in thousands)		
Retail propane	\$ (6,292)	\$ (2,569)	\$ (3,723)
Wholesale supply and marketing	(1,414)	567	(1,981)
Midstream	21	298	(277)
Corporate general and administrative expenses	(2,526)	(2,091)	(435)
Operating loss	\$ (10,211)	\$ (3,795)	\$ (6,416)

Corporate general and administrative increased \$0.4 million during the six months ended September 30, 2011 compared to corporate general and administrative expenses of \$2.1 million during the six months ended September 30, 2010. This increase is due to the costs of being a public company.

***Retail Propane***

The following table compares the operating results of our retail propane segment for the periods indicated:

	Six Months Ended September 30,		Change Resulting From	
	2011	2010	Acquisition of Hicksgas	Change in Pre-Existing Business
	(in thousands)			
Propane sales	\$ 26,256	\$ 6,128	\$ 18,790	\$ 1,338
Parts, fittings, appliance and other sales	3,120	256	2,907	(43)
Service and rental income	2,701	484	2,228	(11)
Cost of sales - propane	(18,892)	(4,489)	(13,324)	(1,079)
Cost of sales - other sales	(2,422)	(260)	(2,256)	94
Gross margin	10,763	2,119	8,345	299
Operating expenses	12,294	3,330	8,830	(134)
General and administrative expenses	2,306	488	1,337	(481)
Depreciation and amortization	2,455	870	1,565	(20)
Segment operating loss	\$ (6,292)	\$ (2,569)	\$ (3,387)	\$ (336)

**Revenues.** Propane sales for the six months ended September 30, 2011 increased \$20.1 million during the six months ended September 30, 2011 as compared to propane sales of \$6.1 million during the six months ended September 30, 2010. This increase is due primarily to the impact of our Hicksgas acquisition in October 2010. During the six months ended September 30, 2011, Hicksgas had total propane sales of \$18.8 million, consisting of 9.2 million gallons sold at an average sales price of \$2.04 per gallon. Excluding the impact of Hicksgas, propane sales of our pre-existing business increased \$1.3 million during the six months ended September 30, 2011 as compared to the same period in 2010, due entirely to the impact of price increases.

**Cost of Sales.** Propane cost of sales for the six months ended September 30, 2011 increased \$14.4 million during the six months ended September 30, 2011 as compared to propane cost of sales of \$4.5 million during the six months ended September 30, 2010. This increase is due primarily to the impact of our Hicksgas acquisition in October 2010. During the six months ended September 30, 2011, Hicksgas average propane cost per gallon was \$1.45. Excluding the impact of Hicksgas, the



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propane cost of sales of our pre-existing business increased \$1.1 million during the six months ended September 30, 2011 as compared to the same period in 2010, due entirely to the effect of propane price increases. Overall, our propane cost per gallon averaged \$1.46 during the six months ended September 30, 2011 compared to \$1.20 per gallon during the six months ended September 30, 2010

*Gross Margin.* Gross margin of our retail propane operation increased \$8.6 million during the six months ended September 30, 2011 as compared to gross margin of \$2.1 million during the six months ended September 30, 2010. This increase is due primarily to the impact of our Hicksgas acquisition in October 2010. Hicksgas had total gross margin of \$8.3 million during the six months ended September 30, 2011. Excluding the impact of Hicksgas, the gross margin of our pre-existing business increased \$0.3 million during the six months ended September 30, 2011 as compared to the same period in 2010 as a result of an increase in the gross margin from propane sales due to an overall increase in our average sales price in excess of the increase in our cost of propane.

*Operating Expenses.* Operating expenses of our retail propane segment increased \$9.0 million during the six months ended September 30, 2011 as compared to operating expenses of \$3.3 million during the six months ended September 30, 2010. This increase is due primarily to the impact of our Hicksgas acquisition in October 2010. Hicksgas had operating expenses of \$8.8 million during the six months ended September 30, 2011. The increase in operating expenses of our pre-existing business during the six months ended September 30, 2011 was not material.

*General and Administrative Expenses.* General and administrative expenses of our retail propane segment increased \$1.8 million during the six months ended September 30, 2011 as compared to general and administrative expenses of \$0.5 million during the six months ended September 30, 2010. This increase is due in part to the impact of our Hicksgas acquisition in October 2010. During the six months ended September 30, 2011, Hicksgas had general and administrative expenses of \$1.3 million. In addition, the general and administrative expenses of our pre-existing business increased \$0.5 million during the six months ended September 30, 2011 as compared to the same period in 2010. This increase is due to acquisition costs of \$0.6 million expensed during the period related primarily to our Osterman acquisition.

*Depreciation and Amortization.* Depreciation and amortization expense of our retail propane segment increased \$1.6 million during the six months ended September 30, 2011 as compared to depreciation and amortization expense of \$0.9 million during the six months ended September 30, 2010. This increase is due to the impact of our Hicksgas acquisition in October 2010. Hicksgas had depreciation and amortization expense of \$1.6 million during the six months ended September 30, 2011.

*Operating Loss.* Our retail propane segment had an operating loss of \$6.3 million during the six months ended September 30, 2011 as compared to an operating loss of \$2.6 million during the six months ended September 30, 2010, an increased loss of \$3.7 million. The increased operating loss is due primarily to the impact of our Hicksgas acquisition in October 2010. Hicksgas had an operating loss of \$3.4 million during the six months ended September 30, 2011. The operating loss of our pre-existing business increased approximately \$0.3 million during the six months ended September 30, 2011 primarily as a result of expensing the acquisition costs related to our Osterman acquisition.

Table of Contents**Wholesale Supply and Marketing**

The following table compares the operating results of our wholesale supply and marketing segment for the periods indicated:

	Six Months Ended September 30,		Change in
	2011	2010	Pre-Existing
	(in thousands)		Business
Wholesale supply sales	\$ 387,947	\$ 315,364	\$ 72,583
Storage revenues	760	959	(199)
Cost of sales	(386,993)	(313,259)	(73,734)
Gross margin	1,714	3,064	(1,350)
Operating expenses	2,032	1,859	(173)
General and administrative expenses	898	540	(358)
Depreciation and amortization	198	98	(100)
Segment operating income (loss)	\$ (1,414)	\$ 567	\$ (1,981)

*Revenues.* Wholesale sales increased \$72.6 million during the six months ended September 30, 2011 as compared to wholesale sales of \$315.4 million during the six months ended September 30, 2010. This increase is due to an increase in sales of \$106.9 million as a result of increases in our average sales price, offset by a decrease in sales of \$34.3 million as a result of a decrease in our sales volumes. Our average sales price during the six months ended September 30, 2011 was \$1.55 per gallon, compared to \$1.16 per gallon during the six months ended September 30, 2010. The increase in price is due to the overall increase in the spot price of propane during the respective periods.

*Cost of Sales.* Wholesale cost of sales increased \$73.7 million during the six months ended September 30, 2011 as compared to cost of sales of \$313.3 million during the six months ended September 30, 2010. This increase is due to an increase in cost of sales of \$108.0 million as a result of the increase in the cost of propane, offset by a decrease in cost of sales of \$34.3 million as a result in the decrease in sales volume. Our overall average cost of propane during the six months ended September 30, 2011 was \$1.55 per gallon, compared to \$1.15 per gallon during the six months ended September 30, 2010. The increase in propane cost is due to the overall increase in the spot price of propane during the respective periods.

*Gross Margin.* Gross margin of our wholesale supply and marketing segment decreased \$1.4 million during the six months ended September 30, 2011 as compared to gross margin of \$3.1 million during the six months ended September 30, 2010. The decline in gross margin is due primarily to the reduction in sales volume during the six months ended September 30, 2011 as compared to the same period in 2010.

*Operating Expenses.* Operating expenses of our wholesale supply and marketing segment increased \$0.2 million during the six months ended September 30, 2011 as compared to operating expenses of \$1.8 million during the six months ended September 30, 2010. This increase is due to increased compensation and insurance expenses resulting primarily from an increase in employees during the period.



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*General and Administrative Expenses.* General and administrative expenses of our wholesale supply and marketing segment increased \$0.4 million during the six months ended September 30, 2011 as compared to general and administrative expenses of \$0.5 million during the six months ended September 30, 2010. This increase is due primarily to expensing acquisition costs of \$0.4 million related to our acquisition of SemStream.

*Operating Loss.* Our wholesale supply and marketing segment had an operating loss of \$1.4 million during the six months ended September 30, 2011 as compared to operating income of \$0.6 million during the six months ended September 30, 2010, a decrease in operating income of \$2.0 million. This decrease is due to a decrease in gross margin of \$1.4 million, increased operating expenses of \$0.2 million and an increase in general and administrative expenses of \$0.4 million.

**Midstream**

The following table compares the operating results of our midstream segment for the periods indicated:

	Six Months Ended September 30,		Change in
	2011	2010	Pre-Existing
	(in thousands)		Business
Operating revenues	\$ 1,182	\$ 1,046	\$ 136
Cost of sales	(200)	(194)	(6)
Gross margin	982	852	130
Other operating expenses	66	42	(24)
General and administrative expenses	470	91	(379)
Depreciation and amortization	425	421	(4)
Segment operating income (loss)	\$ 21	\$ 298	\$ (277)

*Revenues and Gross Margin.* Operating revenues and gross margin of our midstream segment increased \$0.1 million during the six months ended September 30, 2011 as compared to the six months ended September 30, 2010 due to the increase in terminal throughput volumes during the respective periods.

*Operating and General and Administrative Expenses.* Operating and general and administrative expenses of our midstream segment increased \$0.4 million during the six months ended September 30, 2011 as compared to operating and general and administrative expenses of \$0.1 million for the six months ended September 30, 2010. This increase is due primarily to expensing acquisition costs related to our SemStream acquisition of \$0.2 million and an increase of \$0.2 million in compensation and insurance expenses related to an increase in employees during the period.

*Operating and Income (Loss).* Our midstream segment had operating income of \$21,000 during the six months ended September 30, 2011 as compared to operating income of \$0.3 million during the six months ended September 30, 2011. This decrease in our midstream segment operating income is due primarily to the impact of higher compensation costs related to an increase in employees and the acquisition costs of our SemStream acquisition that are charged to expense.





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**Liquidity, Sources of Capital and Capital Resource Activities**

Our principal sources of liquidity and capital are the cash flows from our operations and borrowings under our revolving credit facility. Our cash flows from operations are discussed below.

Our borrowing needs vary significantly during the year due to the seasonal nature of our business. Our greatest working capital borrowing needs generally occur during the period of April through September, the periods when the cash flows from our retail and wholesale propane operations are reduced. Our needs also increase during those periods when we are building our physical propane inventories in anticipation of the heating season and to help us establish a fixed margin for a percentage of our wholesale and retail sales under fixed price sales agreements. Our working capital borrowing needs decline during the period of October through March when the cash flows from our retail and wholesale propane operations are the greatest.

Under our partnership agreement, we are required to make distributions in an amount equal to all of our available cash, if any, no more than 45 days after the end of each fiscal quarter to holders of record on the applicable record dates. Available cash generally means all cash on hand at the end of the respective fiscal quarter less the amount of cash reserves established by our general partner in its reasonable discretion for future cash requirements. These reserves are retained for the proper conduct of our business, debt principal and interest payments and for distributions to our unitholders during the next four quarters. Our general partner reviews the level of available cash on a quarterly basis based upon information provided by management.

We believe that our anticipated cash flows from operations and the borrowing capacity under our revolving credit facility will be sufficient to meet our liquidity needs for the next 12 months. If our plans or assumptions change or are inaccurate, or if we make acquisitions, we may need to raise additional capital. While global financial markets and economic conditions have been disrupted and volatile in the past, the conditions have improved recently. However, we cannot give any assurances that we can raise additional capital to meet these needs. Commitments or expenditures, if any, we may make toward any acquisition projects are at our discretion.

***Revolving Credit Facility***

We expanded our revolving credit facility in August 2011. Presently, our revolving credit facility provides for a total credit facility of \$330 million, represented by a \$130 million working capital facility and a \$200 million acquisition facility. Borrowings under the working capital facility are subject to a defined borrowing base. The borrowing base is determined in part by reference to certain trade position reports and mark-to-market reports delivered to the administrative agent and is subject to immediate adjustment for reductions in certain components of those reports. A reduction to the borrowing base could require us to repay indebtedness in excess of the borrowing base. In addition, three times per year, we can elect to reallocate the lesser of up to \$75 million or the unused portion of our acquisition facility to the working capital facility. At September 30, 2011, we had approximately \$20 million and \$200 million available borrowing capacity under our working capital and acquisition facility, respectively.

Subsequent to September 30, 2011, we elected to reallocate \$50 million from our acquisition facility to our working capital facility. In addition, we have borrowed approximately \$107 million under our acquisition facility and an additional approximately \$91 million under our working capital



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facility primarily in connection with our acquisitions of Osterman and SemStream. At November 11, 2011, we had available for borrowing \$16 million and \$43 million under our working capital and acquisition facility, respectively.

Our revolving credit facility has a final maturity on October 1, 2016. However, a total of \$30 million of our working capital facility matures in February 2012. In addition to customary mandatory prepayment restrictions, we must once a year, prepay the outstanding working capital revolving loans and collateralize outstanding letters of credit in order to reduce the total working capital borrowings to less than \$10.0 million for 30 consecutive days.

Borrowings under our revolving credit facility bear interest at designated interest rates depending on the computed leverage ratio, which is the ratio of total indebtedness (as defined) at any determination date to consolidated EBITDA for the period of the four fiscal quarters most recently ended. Interest is payable quarterly. The interest rates vary at LIBOR plus 2.75% to 3.50% for any LIBOR borrowings or the bank's prime rate plus 1.75% to 2.50% for any base rate borrowings (5% at September 30, 2011 for the working capital facility), in each case depending upon the leverage ratio. We had no LIBOR borrowings at September 30, 2011. We are also required to pay a commitment fee on the average unused commitment which varies from 0.375% to 0.5% depending on our leverage ratio. Our revolving credit facility further indicates that our leverage ratio cannot exceed 4.0 to 1.0 at any quarter end as of September 30, 2011. At September 30, 2011, our ratio of total funded debt to consolidated EBITDA was .05 to 1.

Our revolving credit facility includes customary events of default. Our revolving credit facility also contains various covenants limiting our ability to (subject to certain exceptions), among other things:

- incur other indebtedness (other than permitted debt as defined in the credit facility);
- grant or incur liens on our property;
- create or incur any contingent obligations;
- make investments, loans and acquisitions;
- enter into a merger, consolidation or sale of assets;
- change the nature of the business or the name or place of business of any of the Credit Parties without approval;

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- pay dividends or make distributions if we are in default under the revolving credit facility or in excess of available cash;  
and
- prepay, redeem, defease or otherwise acquire any permitted subordinated debt or make certain amendments to permitted subordinated debt.

At September 30, 2011, we were in compliance with all debt covenants under our revolving credit facility.

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**Business Combinations**

*Osterman Combination*

On October 3, 2011, we closed our business combination with Osterman in which we acquired substantially all of the retail propane assets of Osterman in exchange for 4 million common units and a payment of \$96 million. We funded the cash payment with advances under our acquisition facility. There may be additional payments required due to a working capital adjustment provision in our agreement. See Note 3 to our consolidated financial statements for additional information on the Osterman combination. Osterman's operations are located in the northeastern United States.

*SemStream Combination*

On November 1, 2011, we closed our business combination with SemStream in which we acquired substantially all of the operating assets of SemStream, consisting primarily of natural gas liquids terminals in Arizona, Arkansas, Indiana, Minnesota, Missouri, Montana, Washington and Wisconsin, as well as significant owned and leased storage facilities and rail cars, as well as approximately \$100 million in natural gas liquids inventory. We issued approximately 8.9 million common units and made a cash payment of approximately \$93 million which we funded with \$10 million from our acquisition facility and \$83 million from our working capital facility.

**Cash Flows**

The following summarizes the sources of our cash flows for the periods indicated:

Cash Flows Provided by (Used In):	NGL Energy Partners LP Six Months Ended September 30, 2011		NGL Supply, Inc. Six Months Ended September 30, 2010	
	(in thousands)			
Operating activities, before changes in operating assets and liabilities	\$	(8,358)	\$	(2,491)
Changes in operating assets and liabilities		(44,434)		(28,258)
Operating activities	\$	(52,792)	\$	(30,749)
Investing activities		(2,867)		333
Financing activities		47,725		10,161

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*Operating Activities.* The seasonality of our propane business has a significant effect on our cash flows from operating activities. The changes in our operating assets and liabilities caused by the seasonality of our retail and wholesale propane business also have a significant impact on our net cash flows from operating activities, as is demonstrated in the table above. Increases in propane prices will tend to result in reduced operating cash flows due to the need to use more cash to fund increases in propane inventories, and propane price decreases tend to increase our operating cash flow due to lower cash requirements to fund increases in propane inventories.

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In general, our operating cash flows are generally at their lowest levels during our first and second fiscal quarters, or the six months ending September 30, when we experience operating losses or less operating income as a result of lower volumes of propane sales and terminal throughput and when we are building our inventory levels for the upcoming heating season. Our operating cash flows are greatest during our third and fourth fiscal quarters, or the six months ending March 31, when our operating income levels are highest and customers pay for propane consumed during the heating season months. We will generally borrow under our working capital facility to supplement our operating cash flows as necessary during our first and second quarters. The table above reflects this general trend. Our propane inventory volumes have also increased over the comparable period in 2010 due to the reduced level of liftings by our wholesale pre-sale customers.

*Investing Activities.* Our cash flows from investing activities are primarily impacted by our capital expenditures and acquisitions. In periods where we are engaged in significant acquisitions, we will generally realize negative cash flows in investing activities, which, depending on our cash flows from operating activities, may require us to increase the borrowings under our acquisition or working capital facilities.

*Financing Activities.* In addition to changes resulting from debt advances and repayments, our cash flow from financing activities will be impacted by distributions to our partners. In periods where our cash flows from operating activities are reduced (such as during our first and second quarters), we fund the cash flow deficits through our working capital facility. Cash flows required by our investing activities in excess of cash available through our operating activities are funded primarily by our acquisition credit facility.

We expect our distributions to owners to increase in future periods under the terms of our partnership agreement. Based on the number of common and subordinated units outstanding after our initial public offering, if we made distributions equal to our minimum quarterly distribution of \$0.3375 per unit (\$1.35 annualized), total distributions would equal \$5.0 million per quarter (\$20.0 million per year). The common units issued in our acquisition of Osterman and SemStream will also result in increased distributions in future periods. To the extent our cash flows from operating activities are not sufficient to finance distributions to our partners, we may be required to increase the borrowings under our working capital credit facility.

On May 5, 2011, we made a distribution of \$3.85 million from available cash to our general partner and common unitholders as of March 31, 2011. Also in May 2011, we used approximately \$65.0 million of the proceeds from our initial public offering to repay advances under our acquisition facility.

During August 2011, we declared and paid a distribution of \$2.5 million (\$0.1669 per unit) to our general partner and unitholders of record on August 3, 2011. This represented a pro rata distribution of our minimum quarterly distribution for the period from the closing date of our initial public offering (May 17, 2011) through June 30, 2011. On October 21, 2011, we declared a distribution of \$0.3375 per unit payable to our general partner and unitholders of record on October 31, 2011, excluding the units issued in connection with our Osterman acquisition. We paid this distribution on November 14, 2011.

Changes in cash flow from financing activities of NGL Supply historically were due to advances from and repayments of its revolving credit facility, either to fund operating or investing requirements. Prior to the six months ended September 30, 2010, NGL Supply's financing cash





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flows to fund distributions to its shareholders were not substantial. NGL Supply made distributions to its preferred stockholder each year as required. NGL Supply also made a \$7.0 million distribution to the owners of its common stock during the six months ended September 30, 2010 and redeemed its preferred stock in advance of our formation transactions. Such distributions and the negative cash flows realized from operating activities during the six months ended September 30, 2010 required NGL Supply to increase borrowings under its revolving credit facility.

**Contractual Obligations**

The following table updates our contractual obligations summary through September 30, 2011 for our fiscal years ending thereafter (amounts in thousands):

	Total	For the Six Months Ending March 31, 2012	2013	For the Years Ending March 31, 2014 2015 2016			After March 31, 2016
				(in thousands)			
<b>Debt principal and interest payments</b>							
Acquisition advances (1)	\$	\$	\$	\$	\$	\$	\$
Working capital advances (2)	50,000	30,000	10,000				10,000
Other long-term debt	737	195	452	90			
<b>Scheduled interest payments on acquisition facility (1)</b>							
Future estimated payments under terminal operating agreements	2,288	182	364	370	376	382	614
Future minimum lease payments under noncancelable storage and other operating leases	14,883	1,420	2,767	2,766	2,698	2,616	2,616
Fixed price commodity purchase commitments (3)	109,816	95,480	14,336				
Index priced commodity purchase commitments (3) (4)	210,994	210,994					
<b>Total contractual obligations</b>	<b>\$ 388,718</b>	<b>\$ 338,271</b>	<b>\$ 27,919</b>	<b>\$ 3,226</b>	<b>\$ 3,074</b>	<b>\$ 2,998</b>	<b>\$ 13,230</b>
<b>Gallons under fixed-price purchase commitments (thousands)</b>							
	77,299	66,379	10,920				
<b>Gallons under index-price purchase commitments (thousands)</b>							
	155,106	155,106					

(1) We had no outstanding advances under our acquisition revolving credit facility at September 30, 2011 as a result of the pay down of the advances using proceeds from our initial public offering in May 2011. We are required to pay up to a 0.5% commitment fee on the average unused commitment depending on our leverage ratio.

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(2) Once each year, we are required to prepay borrowings under our working capital facility to reduce the outstanding borrowings to less than \$10.0 million for 30 consecutive days. We are also required to pay down \$30.0 million of our working capital facility in February 2012. At September 30, 2011, we had \$50.0 million in working capital borrowings at an interest rate of 5%.

(3) At September 30, 2011, we had fixed priced and index priced sales contracts for approximately 101.8 million and 14.0 million gallons of propane and other natural gas liquids respectively.

(4) Index prices are based on a forward price curve as of September 30, 2011. A theoretical change of \$0.10 per gallon in the underlying commodity price at September 30, 2011 would result in a change of approximately \$15.5 million in the value of our index-based purchase commitments.

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**Off-Balance Sheet Arrangements**

We do not have any off-balance sheet arrangements that are expected to have an impact on our financial condition or results of operations other than the operating leases we have executed.

**Environmental Legislation**

Please see our Annual Report on Form 10-K for the year ended March 31, 2011 for a discussion of proposed environmental legislation and regulations that, if enacted, could result in increased compliance and operating costs. However, at this time we cannot predict the structure or outcome of any future legislation or regulations or the eventual cost we could incur in compliance.

**Recent Accounting Pronouncements**

FASB Accounting Standards Codification Subtopic 260-10, or ASC 260-10, originally issued as FSP EITF Issue No. 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities*, was ratified in June 2008 and applies to the calculation of earnings per share. ASC 260-10 states that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method. We adopted ASC 260-10 in fiscal 2010. The adoption of ASC 260-10 did not have a significant impact on our earnings per share calculation since we did not have any share-based compensation awards that represented participating securities. However, this may have a significant impact on our earnings per unit computation in future periods.

**Critical Accounting Policies**

The preparation of financial statements and related disclosures in compliance with GAAP requires the selection and application of appropriate accounting principles to the relevant facts and circumstances of the Partnership's operations and the use of estimates made by management. We have identified the following critical accounting policies that are most important to the portrayal of our financial condition and results of operations. Changes in these policies could have a material effect on the financial statements. The application of these accounting policies necessarily requires our most subjective or complex judgments regarding estimates and projected outcomes of future events which could have a material impact on the financial statements.

***Revenue Recognition***

Sales of propane and other natural gas liquids in our retail propane and wholesale supply and marketing operations are recognized at the time product is shipped or delivered to the customer. Revenue from the sale of propane fittings and parts is recognized at the later of the time of sale

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or installation. Propane service revenues are recognized upon completion of the service. Tank rental revenues are recognized over the period of the rental. Storage revenue is recognized during the period in which storage services are provided. Terminal operating revenues are recorded at the point of product throughput.

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***Impairment of Goodwill and Long-Lived Assets***

Goodwill is subject to at least an annual assessment for impairment by applying a fair-value-based test. Additionally, an acquired intangible asset should be separately recognized if the benefit of the intangible asset is obtained through contractual or other legal rights, or if the intangible asset can be sold, transferred, licensed, rented or exchanged, regardless of the acquirer's intent to do so.

We perform our annual assessment of impairment during the fourth quarter of our fiscal year, and more frequently if circumstances warrant. The valuation of our reporting units requires us to make certain assumptions as relates to future operations. When evaluating operating performance, various factors are considered such as current and changing economic conditions and the commodity price environment, among others. If the growth assumptions embodied in the current year impairment testing prove inaccurate, we could incur an impairment charge. To date, we have not recognized any impairment on assets we have acquired.

***Asset Retirement Obligation***

We are required to recognize the fair value of a liability for an asset retirement obligation when it is incurred (generally in the period in which we acquire, construct or install an asset) if a reasonable estimate of fair value can be made. If a reasonable estimate cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of fair value can be made.

In order to determine fair value of such liability, we must make certain estimates and assumptions including, among other things, projected cash flows, a credit-adjusted risk-free interest rate and an assessment of market conditions that could significantly impact the estimated fair value of the asset retirement obligation. These estimates and assumptions are very subjective and can vary over time.

We have determined that we are obligated by contractual or regulatory requirements to remove certain of our assets or perform other remediation of the sites where such assets are located upon the retirement of those assets. However, the fair value of our asset retirement obligation cannot currently be reasonably estimated because the settlement dates are indeterminate. We will record an asset retirement obligation in the periods in which we can reasonably determine the settlement dates.

***Depreciation Methods and Estimated Useful Lives of Property, Plant and Equipment***

Depreciation expense represents the systematic and rational write-off of the cost of our property and equipment, net of residual or salvage value (if any), to the results of operations for the quarterly and annual periods the assets are used. We depreciate the majority of our property and equipment using the straight-line method, which results in our recording depreciation expense evenly over the estimated life of the individual asset. The estimate of depreciation expense requires us to make assumptions regarding the useful economic lives and residual values of our assets. At the time we acquire and place our property and equipment in service, we develop assumptions about such lives and residual values that we believe are reasonable; however, circumstances may develop that could require us to change these assumptions in future periods, which would change our depreciation expense amounts prospectively. Examples of such circumstances include changes in laws and regulations that limit the estimated economic life of an asset; changes in technology that render an asset obsolete; or changes in expected salvage values.



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The net book value of our property, plant and equipment was \$66.4 million at September 30, 2011. We recorded depreciation expense of \$1.4 million and \$0.5 million for the three months ended September 30, 2011 and 2010, respectively, and \$2.6 million and \$1.0 million for the six months ended September 30, 2011 and 2010, respectively.

For additional information regarding our property and equipment, see Note 5 of our condensed consolidated financial statements included elsewhere in this interim report.

***Business Combinations***

We have made in the past, and expect to make in the future, acquisitions of other businesses. In accordance with generally accepted accounting principles for business combinations, we recorded business combinations using a method known as the acquisition method in which the various assets acquired and liabilities assumed are recorded at their estimated fair value. Fair values of assets acquired and liabilities assumed are based upon available information and may involve us engaging an independent third party to perform an appraisal. Estimating fair values can be complex and subject to significant business judgment. We must also identify and include in the allocation all tangible and intangible assets acquired that meet certain criteria, including assets that were not previously recorded by the acquired entity. The estimates most commonly involve property and equipment and intangible assets, including those with indefinite lives. The excess of purchase price over the fair value of acquired assets is recorded as goodwill which is not amortized but reviewed annually for impairment. Generally, we have, if necessary, up to one year from the acquisition date to finalize the purchase price allocation. The impact of subsequent changes to the identification of assets and liabilities may require a retroactive adjustment to previously reported financial position and results of operations.

***Inventory***

Our inventory consists primarily of propane inventory we hold in storage facilities or in various common carrier pipelines. We value our inventory at the lower of cost or market, and our cost is determined based on the weighted average cost method. There may be periods during our fiscal year where the market price for propane on a per gallon basis would be less than our average cost. However, the accounting guidelines do not require us to record a writedown of our inventory at an interim period if we believe that the market values will recover by our year end of March 31. Propane prices fluctuate year to year, and during the interim periods within a year. We are unable to control changes in the market value of propane and are unable to determine whether writedowns will be required in future periods. In addition, writedowns at interim periods could be required if we cannot conclude that market values will recover sufficiently by our year end.

***Product Exchanges***

In our wholesale supply and marketing business, we frequently have exchange transactions with suppliers or customers in which we will deliver product volumes to them, or receive product volumes from them to be delivered back to us or from us in future periods, generally in the short-term (referred to as product exchanges). The settlements of exchange volumes are generally done through in-kind arrangements whereby settlement volumes are delivered at no cost, with the exception of location differentials. Such in-kind deliveries are ongoing and can take place over several months. We estimate the value of our current product exchange assets and liabilities using period end spot market prices plus or minus location differentials, which we believe represents the value of the exchange volumes at such date. Changes in product prices could impact our estimates.





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**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

***Interest Rate Risk***

As of September 30, 2011, substantially all of our long-term debt is variable-rate debt. Changes in interest rates impact the interest payments of our variable-rate debt but generally do not impact the fair value of the liability. Conversely, changes in interest rates impact the fair value of fixed-rate debt but do not impact their cash flows.

Our revolving credit facility is variable-rate debt with interest rates that are generally indexed to bank prime or LIBOR interest rates. As of September 30, 2011, we had no outstanding borrowings under our acquisition credit facility and \$50.0 million borrowed against our working capital facility.

We have an interest rate swap agreement to hedge the risk of interest rate fluctuations on our long-term debt. This agreement converts a portion of our revolving credit facility floating rate debt into fixed rate debt on notional amounts of \$8.5 million and end on June 30, 2013. The notional amounts of derivative instruments do not represent actual amounts exchanged between the parties, but instead represent amounts on which the contracts are based. The floating interest rate payments under this swap are based on three-month LIBOR rates. We do not account for this agreement as a hedge. At September 30, 2011, the fair value of this swap agreement was a liability of approximately \$0.2 million and is recorded as accrued expenses and other payables in our consolidated balance sheet.

***Commodity Price and Credit Risk***

Our operations are subject to certain business risks, including commodity price risk and credit risk. Commodity price risk is the risk that the market value of propane and other natural gas liquids will change, either favorably or unfavorably, in response to changing market conditions. Credit risk is the risk of loss from nonperformance by suppliers, customers or financial counterparties to a contract.

We take an active role in managing and controlling commodity price and credit risks and have established control procedures, which we review on an ongoing basis. We monitor commodity price risk through a variety of techniques, including daily reporting of price changes to senior management. We attempt to minimize credit risk exposure through credit policies and periodic monitoring procedures as well as through customer deposits, restrictions on propane liftings, letters of credit and entering into netting agreements that allow for offsetting counterparty receivable and payable balances for certain financial transactions, as deemed appropriate. The principal counterparties associated with our operations as of September 30, 2011 were propane retailers, resellers, energy marketers, producers, refiners and dealers.

The propane industry is a margin-based and cost-plus business in which gross profits depend on the differential of sales prices over supply costs. As a result, our profitability will be sensitive to changes in wholesale prices of propane caused by changes in supply or other market conditions. When there are sudden and sharp increases in the wholesale cost of propane, we may not be able to pass on these increases to our customers through retail or wholesale prices. Propane is a



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commodity and the price we pay for it can fluctuate significantly in response to supply or other market conditions. We have no control over supply or market conditions. In addition, the timing of cost increases can significantly affect our realized margins. Sudden and extended wholesale price increases could reduce our gross margins and could, if continued over an extended period of time, reduce demand by encouraging our retail customers to conserve or convert to alternative energy sources.

We have engaged in derivative financial and other risk management transactions in the past, including various types of forward contracts, options, swaps and future contracts, to reduce the effect of price volatility on our product costs, protect the value of our inventory positions and to help ensure the availability of propane during periods of short supply. We attempt to balance our contractual portfolio by purchasing volumes when we have a matching purchase commitment from our wholesale and retail customers. We may experience net unbalanced positions from time to time which we believe to be immaterial in amount. In addition to our ongoing policy to maintain a balanced position, for accounting purposes we are required, on an ongoing basis, to track and report the market value of our derivative portfolio.

Although we use derivative commodity instruments to reduce the market price risk associated with forecasted transactions, we have not accounted for such derivative commodity instruments as hedges. In addition, we do not use such derivative commodity instruments for speculative or trading purposes. As of September 30, 2011, the fair value of our unsettled commodity derivative instruments was a net liability of approximately \$0.09 million. A hypothetical change of 10% in the market price of propane would result in a decrease in the fair value of such derivative commodity instruments of approximately \$0.2 million. We record the changes in fair value of these derivative commodity instruments as cost of sales of our wholesale supply and marketing segment.

***Fair Value***

The value of our open derivative commodity instruments and interest rate swap contract at September 30, 2011 was a liability of \$93,000 and \$0.2 million, respectively. See Note 11 to our condensed consolidated financial statements as of September 30, 2011 included elsewhere in this interim report for additional information.

We use observable market values for determining the fair value of our trading instruments. In cases where actively quoted prices are not available, other external sources are used which incorporate information about commodity prices in actively quoted markets, quoted prices in less active markets and other market fundamental analysis.

**Item 4. Controls and Procedures**

We maintain disclosure controls and procedures (as defined in Rules 13(a)-15(e) and 15(d)-15(e) of the Securities Exchange Act of 1934) that are designed to provide reasonable assurance that information required to be disclosed in our filings and submissions under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the periods specified in the rules and forms of the SEC and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.



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We completed an evaluation under the supervision and with participation of our management, including our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of September 30, 2011. Based on this evaluation, our principal executive officer and principal financial officer have concluded that as of September 30, 2011, such disclosure controls and procedures were effective to provide the reasonable assurance described above.

There have not been any changes in our internal control over financial reporting (as defined in Rules 13(a)-15(f) and 15(d)-15(f) of the Securities Exchange Act of 1934) during the quarter ended September 30, 2011 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

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**PART II**

**Item 1. Legal Proceedings**

We are not aware of any material legal proceedings, pending or threatened, other than legal proceedings arising in the ordinary course of business. Although we are self-insured for non-catastrophic occurrences, we also maintain insurance policies with insurers in amounts and with coverages and deductibles that our general partner believes are reasonable and prudent. However, we cannot give any assurance that this insurance will be adequate to protect us from all material expenses related to potential future claims for personal and property damage or that these levels of insurance will be available in the future at economical prices.

**Item 1A. Risk Factors**

Except as set forth below, there have been no material changes from the risk factors previously disclosed in **Item 1A Risk Factors** in our annual report on Form 10-K for the fiscal year ended March 31, 2011. The following risk factor amends and restates the risk factor with the same title appearing in our annual report.

*Our propane terminaling operations depend on neighboring pipelines to transport propane.*

We own propane terminals in Arizona, Arkansas, Illinois, Indiana, Minnesota, Missouri, Montana, Washington, Wisconsin and St. Catharines, Ontario. These facilities depend on pipeline and storage systems that are owned and operated by third parties. Any interruption of service on the pipeline or lateral connections or adverse change in the terms and conditions of service could have a material adverse effect on our ability, and the ability of our customers, to transport propane to and from our facilities and have a corresponding material adverse effect on our terminaling revenues. In addition, the rates charged by the interconnected pipelines for transportation to and from our facilities affect the utilization and value of our terminaling services. We have historically been able to pass through the costs of pipeline transportation to our customers. However, if competing pipelines do not have similar annual tariff increases or service fee adjustments, such increases could affect our ability to compete, thereby adversely affecting our terminaling revenues.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

None.

**Item 3. Defaults Upon Senior Securities**

Not applicable.

**Item 4.**                    **[Removed and Reserved]**

**Item 5.**                    **Other Information**

None.



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**Item 6. Exhibits**

<b>Exhibit Number</b>	<b>Description</b>
2.1	Contribution and Sale Agreement dated as of August 12, 2011 by and among NGL Energy Partners LP, E. Osterman Propane, Inc., E. Osterman Gas Service, Inc., AO Energy, Inc., E. Osterman, Inc., E. Osterman Propane, Inc., E. Osterman Propane, LLC, Milford Propane, Inc., Osterman Associated Companies, Inc., Osterman Propane, Inc., Osterman Propane Storage, LP, Propane Gas, Inc., Saveway Propane Gas Service, Inc., V.E. Properties V, LLC, V.E. Properties VI, LLC, Osterman Realty of Ware, LLC, Vincent J. Osterman, Trustee of the Pioneer Valley Real Estate Trust III, Ernest Osterman and Vincent Osterman (incorporated by reference to Exhibit 2.1 to the Form 8-K (File No. 001-35172) filed on October 7, 2011)
2.2	Contribution Agreement dated as of August 31, 2011 by and among SemStream, L.P., NGL Energy Partners LP, NGL Energy Holdings LLC and NGL Supply Terminal Company, LLC (incorporated by reference to Exhibit 2.1 to the Form 8-K (File No. 001-35172) filed on November 4, 2011)
3.1	Certificate of Limited Partnership of NGL Energy Partners LP (incorporated by reference to Exhibit 3.1 to the Registration Statement on Form S-1 (File No. 333-172186) filed on April 15, 2011)
3.2	Certificate of Amendment to Certificate of Limited Partnership of NGL Energy Partners LP (incorporated by reference to Exhibit 3.2 to the Registration Statement on Form S-1 (File No. 333-172186) filed on April 15, 2011)
3.3	Second Amended and Restated Agreement of Limited Partnership of NGL Energy Partners LP (incorporated by reference to Exhibit 3.1 to the Form 8-K (File No. 001-35172) filed on May 17, 2011)
3.4	Certificate of Formation of NGL Energy Holdings LLC (incorporated by reference to Exhibit 3.4 to the Registration Statement on Form S-1 (File No. 333-172186) filed on April 15, 2011)
3.5	Certificate of Amendment to Certificate of Formation of NGL Energy Holdings LLC (incorporated by reference to Exhibit 3.5 to the Registration Statement on Form S-1 (File No. 333-172186) filed on April 15, 2011)
3.6	First Amended and Restated Limited Liability Company Agreement of NGL Energy Holdings LLC (incorporated by reference to Exhibit 3.6 to the Registration Statement on Form S-1 (File No. 333-172186) filed on May 4, 2011)
3.7	First Amendment to Second Amended and Restated Agreement of Limited Partnership of NGL Energy Partners LP (incorporated by reference to Exhibit 3.1 to the Form 8-K (File No. 001-35172) filed on October 26, 2011)
3.8	Second Amended and Restated Limited Liability Company Agreement of NGL Energy Holdings LLC (incorporated by reference to Exhibit 3.1 to the Form 8-K (File No. 001-35172) filed on November 4, 2011)

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<b>Exhibit Number</b>	<b>Description</b>
4.1	First Amended and Restated Registration Rights Agreement dated October 3, 2011 by and among NGL Energy Partners LP, Hicks Oils & Hicksgas, Incorporated, NGL Holdings, Inc., Krim2010, LLC, Infrastructure Capital Management, LLC, Atkinson Investors, LLC, and the other holders party thereto (incorporated by reference to Exhibit 4.1 to the Form 8-K (File No. 001-35172) filed on October 7, 2011)
4.2	Amendment No. 1 and Joinder to First Amended and Restated Registration Rights Agreement dated November 1, 2011 by and between NGL Energy Holdings LLC and SemStream, L.P. (incorporated by reference to Exhibit 4.1 to the Form 8-K (File No. 001-35172) filed on November 4, 2011)
10.1+	NGL Energy Partners LP 2011 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.1 to the Form 8-K (File No. 001-35172) filed on May 17, 2011)
10.2*	Sixth Amendment to Credit Agreement dated August 22, 2011 by and among NGL Energy Partners LP, Silverthorne Operating LLC and certain of its subsidiaries, Wells Fargo Bank, National Association, and the lenders party thereto
31.1*	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002
31.2*	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002
32.1*	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002
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101.INS* **	XBRL Instance Document
101.SCH* **	XBRL Schema Document
101.CAL* **	XBRL Calculation Linkbase Document
101.DEF* **	XBRL Definition Linkbase Document
101.LAB* **	XBRL Label Linkbase Document
101.PRE* **	XBRL Presentation Linkbase Document

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\* Exhibits filed with this report.

\*\* Attached as Exhibit 101 to this report are the following documents formatted in XBRL (Extensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets as of September 30, 2011 and March 31, 2011, (ii) Condensed Consolidated Statement of Operations for the three months and six months ended September 30, 2011 and 2010, (iii) Condensed Consolidated Statements of Comprehensive Loss for the three months and six months ended September 30, 2011 and 2010, (iv) Condensed Consolidated Statement of Partners' Equity for the three months and six months ended September 30, 2011 and (v) Condensed Consolidated Statement of Cash Flows for the three months and six months ended September 30, 2011 and 2010.

+ Management contracts or compensatory plans or arrangements.

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

NGL ENERGY PARTNERS LP

By: NGL Energy Holdings LLC,  
its general partner

Date: November 14, 2011

By: /s/ H. Michael Krimbill  
H. Michael Krimbill  
Chief Executive Officer

Date: November 14, 2011

By: /s/ Craig S. Jones  
Craig S. Jones  
Chief Financial Officer

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**EXHIBIT INDEX**

<b>Exhibit Number</b>	<b>Description</b>
2.1	Contribution and Sale Agreement dated as of August 12, 2011 by and among NGL Energy Partners LP, E. Osterman Propane, Inc., E. Osterman Gas Service, Inc., AO Energy, Inc., E. Osterman, Inc., E. Osterman Propane, Inc., E. Osterman Propane, LLC, Milford Propane, Inc., Osterman Associated Companies, Inc., Osterman Propane, Inc., Osterman Propane Storage, LP, Propane Gas, Inc., Saveway Propane Gas Service, Inc., V.E. Properties V, LLC, V.E. Properties VI, LLC, Osterman Realty of Ware, LLC, Vincent J. Osterman, Trustee of the Pioneer Valley Real Estate Trust III, Ernest Osterman and Vincent Osterman (incorporated by reference to Exhibit 2.1 to the Form 8-K (File No. 001-35172) filed on October 7, 2011)
2.2	Contribution Agreement dated as of August 31, 2011 by and among SemStream, L.P., NGL Energy Partners LP, NGL Energy Holdings LLC and NGL Supply Terminal Company, LLC (incorporated by reference to Exhibit 2.1 to the Form 8-K (File No. 001-35172) filed on November 4, 2011)
3.1	Certificate of Limited Partnership of NGL Energy Partners LP (incorporated by reference to Exhibit 3.1 to the Registration Statement on Form S-1 (File No. 333-172186) filed on April 15, 2011)
3.2	Certificate of Amendment to Certificate of Limited Partnership of NGL Energy Partners LP (incorporated by reference to Exhibit 3.2 to the Registration Statement on Form S-1 (File No. 333-172186) filed on April 15, 2011)
3.3	Second Amended and Restated Agreement of Limited Partnership of NGL Energy Partners LP (incorporated by reference to Exhibit 3.1 to the Form 8-K (File No. 001-35172) filed on May 17, 2011)
3.4	Certificate of Formation of NGL Energy Holdings LLC (incorporated by reference to Exhibit 3.4 to the Registration Statement on Form S-1 (File No. 333-172186) filed on April 15, 2011)
3.5	Certificate of Amendment to Certificate of Formation of NGL Energy Holdings LLC (incorporated by reference to Exhibit 3.5 to the Registration Statement on Form S-1 (File No. 333-172186) filed on April 15, 2011)
3.6	First Amended and Restated Limited Liability Company Agreement of NGL Energy Holdings LLC (incorporated by reference to Exhibit 3.6 to the Registration Statement on Form S-1 (File No. 333-172186) filed on May 4, 2011)
3.7	First Amendment to Second Amended and Restated Agreement of Limited Partnership of NGL Energy Partners LP (incorporated by reference to Exhibit 3.1 to the Form 8-K (File No. 001-35172) filed on October 26, 2011)
3.8	Second Amended and Restated Limited Liability Company Agreement of NGL Energy Holdings LLC (incorporated by reference to Exhibit 3.1 to the Form 8-K (File No. 001-35172) filed on November 4, 2011)

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