NGL Energy Partners LP
Form 10-Q
November 12, 2013
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# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# Form 10-Q

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

**For the quarterly period ended September 30, 2013**

**or**

o **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)

| **Delaware** | **27-3427920** |
|---|---|
| (State or Other Jurisdiction of Incorporation or Organization) | (I.R.S. Employer Identification No.) |
| **6120 South Yale Avenue**<br>**Suite 805**<br>**Tulsa, Oklahoma** | **74136** |
| (Address of Principal Executive Offices) | (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 x No o

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 x No o

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 o | Accelerated filer x |
|---|---|
| Non-accelerated filer o | Smaller reporting company o |

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

As of November 5, 2013, there were 66,650,735 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 p 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 crude oil and natural gas liquids;
- energy prices generally;
- the price of propane compared to the price of alternative and competing fuels;
- the general level of crude oil, natural gas, and natural gas liquids production;
- the general level of demand for crude oil and natural gas liquids;
- the availability of supply of crude oil and natural gas liquids;
- the level of crude oil and natural gas production in producing basins in which we have water treatment facilities;
- the ability to obtain adequate supplies of propane and distillates for retail sale in the event of an interruption in supply or transportation and the availability of capacity to transport propane to market areas;

- actions taken by foreign oil and gas producing nations;
- the political and economic stability of petroleum producing nations;
- the effect of weather conditions on demand for oil, natural gas and natural gas liquids;
- the effect of natural disasters or other significant weather events;
- availability of local, intrastate and interstate transportation infrastructure, including with respect to our truck, rail, and barge transportation services;
- availability and marketing of competitive fuels;
- the impact of energy conservation efforts;
- energy efficiencies and technological trends;
- governmental regulation and taxation;
- the impact of legislative and regulatory actions on hydraulic fracturing;
- hazards or operating risks incidental to the transporting and distributing of petroleum products 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 ability to renew contracts with key customers;
- the fees we charge and the margins we realize for our terminal services;
- the ability to renew leases for general purpose and high pressure rail cars;
- the ability to renew leases for underground natural gas liquids storage;
- the non-payment 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;
- the ability 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 impact of such laws and regulations (now existing or in the future) on our business operations, including our sales of crude oil, condensate, and natural gas liquids, our processing of wastewater, and transportation and hedging activities; 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 in our Annual Report on Form 10-K for the fiscal year ended March 31, 2013.

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**PART I**

**Item 1. Financial Statements (Unaudited)**

**NGL ENERGY PARTNERS LP**

**Unaudited Condensed Consolidated Balance Sheets**

**As of September 30, 2013 and March 31, 2013**

**(U.S. Dollars in Thousands, except unit amounts)**

| | September 30, 2013 | March 31, 2013 |
|---|---|---|
| **ASSETS** | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | $ 5,528 | $ 11,561 |
| Accounts receivable - trade, net of allowance for doubtful accounts of $1,893 and $1,760, respectively | 602,033 | 562,889 |
| Accounts receivable - affiliates | 3,071 | 22,883 |
| Inventories | 355,300 | 126,895 |
| Prepaid expenses and other current assets | 47,927 | 37,891 |
| Total current assets | 1,013,859 | 762,119 |
| | | |
| PROPERTY, PLANT AND EQUIPMENT, net of accumulated depreciation of $76,390 and $50,127, respectively | 631,663 | 516,937 |
| GOODWILL | 840,287 | 563,146 |
| INTANGIBLE ASSETS, net of accumulated amortization of $68,790 and $44,155, respectively | 534,746 | 442,603 |
| OTHER NONCURRENT ASSETS | 5,938 | 6,542 |
| Total assets | $ 3,026,493 | $ 2,291,347 |
| | | |
| **LIABILITIES AND PARTNERS EQUITY** | | |
| CURRENT LIABILITIES: | | |
| Trade accounts payable | $ 604,018 | $ 535,687 |
| Accrued expenses and other payables | 101,988 | 85,703 |
| Advance payments received from customers | 67,994 | 22,372 |
| Accounts payable - affiliates | 18,429 | 6,900 |
| Current maturities of long-term debt | 8,229 | 8,626 |
| Total current liabilities | 800,658 | 659,288 |
| | | |
| LONG-TERM DEBT, net of current maturities | 906,066 | 740,436 |
| OTHER NONCURRENT LIABILITIES | 2,673 | 2,205 |
| | | |
| COMMITMENTS AND CONTINGENCIES | | |
| | | |
| PARTNERS EQUITY, per accompanying statement: | | |
| | (48,782) | (50,497) |

| | | | | |
|---|---|---|---|---|
| General Partner 0.1% interest; 71,288 and 53,676 notional units outstanding at September 30, 2013 and March 31, 2013, respectively | | | | |
| Limited Partners 99.9% interest Common units 65,296,884 and 47,703,313 units outstanding at September 30, 2013 and March 31, 2013, respectively | | 1,354,305 | | 920,998 |
| Subordinated units 5,919,346 units outstanding at September 30, 2013 and March 31, 2013 | | 4,130 | | 13,153 |
| Accumulated other comprehensive income (loss) Foreign currency translation | | (6) | | 24 |
| Noncontrolling interests | | 7,449 | | 5,740 |
| Total partners equity | | 1,317,096 | | 889,418 |
| Total liabilities and partners equity | $ | 3,026,493 | $ | 2,291,347 |

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

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**NGL ENERGY PARTNERS LP**

**Unaudited Condensed Consolidated Statements of Operations**

**Three Months and Six Months Ended September 30, 2013 and 2012**

**(U.S. Dollars in Thousands, except unit and per unit amounts)**

| | Three Months Ended September 30, | | Six Months Ended September 30, | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| REVENUES: | | | | |
| Crude oil logistics | $ 1,014,008 | $ 711,021 | $ 1,944,802 | $ 784,538 |
| Water services | 34,190 | 15,810 | 54,703 | 17,751 |
| Natural gas liquids logistics | 484,874 | 350,368 | 845,833 | 541,985 |
| Retail propane | 59,380 | 57,003 | 131,597 | 116,211 |
| Other | 1,485 | 1,308 | 2,959 | 1,461 |
| Total Revenues | 1,593,937 | 1,135,510 | 2,979,894 | 1,461,946 |
| | | | | |
| COST OF SALES: | | | | |
| Crude oil logistics | 992,135 | 693,687 | 1,901,354 | 770,570 |
| Water services | 3,782 | 2,054 | 4,365 | 2,670 |
| Natural gas liquids logistics | 459,394 | 328,283 | 809,645 | 512,328 |
| Retail propane | 33,539 | 29,666 | 76,562 | 67,107 |
| Total Cost of Sales | 1,488,850 | 1,053,690 | 2,791,926 | 1,352,675 |
| | | | | |
| OPERATING COSTS AND EXPENSES: | | | | |
| Operating | 55,769 | 39,431 | 104,814 | 62,769 |
| General and administrative | 14,312 | 10,443 | 32,766 | 20,403 |
| Depreciation and amortization | 25,061 | 13,361 | 47,785 | 22,588 |
| Operating Income | 9,945 | 18,585 | 2,603 | 3,511 |
| | | | | |
| OTHER INCOME (EXPENSE): | | | | |
| Interest expense | (11,060) | (8,692) | (21,682) | (12,492) |
| Loss on early extinguishment of debt | | | | (5,769) |
| Interest income | 266 | 263 | 664 | 629 |
| Other, net | 153 | 3 | (195) | 29 |
| Income (Loss) Before Income Taxes | (696) | 10,159 | (18,610) | (14,092) |
| | | | | |
| INCOME TAX (PROVISION) BENEFIT | (236) | (77) | 170 | (536) |
| | | | | |
| Net Income (Loss) | (932) | 10,082 | (18,440) | (14,628) |
| | | | | |
| Net Income Allocated to General Partner | (2,451) | (694) | (4,139) | (789) |
| | | | | |
| Net (Income) Loss Attributable to Noncontrolling Interests | (9) | (9) | (134) | 51 |
| | | | | |
| Net Income (Loss) Attributable to Parent Equity Allocated to Limited Partners | $ (3,392) | $ 9,379 | $ (22,713) | $ (15,366) |
| | | | | |
| Basic and Diluted Income (Loss) per Common Unit | $ (0.05) | $ 0.18 | $ (0.37) | $ (0.37) |

| | | | | |
|---|---|---|---|---|
| Basic and Diluted Income (Loss) per Subordinated Unit | $ (0.09) | $ 0.18 | $ (0.52) | $ (0.38) |
| Basic and Diluted Weighted Average Units Outstanding: | | | | |
| Common | 58,909,389 | 44,831,836 | 53,336,969 | 35,730,492 |
| Subordinated | 5,919,346 | 5,919,346 | 5,919,346 | 5,919,346 |

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

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**NGL ENERGY PARTNERS LP**

**Unaudited Condensed Consolidated Statements of Comprehensive Income (Loss)**

**Three Months and Six Months Ended September 30, 2013 and 2012**

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

| | Three Months Ended September 30, | | Six Months Ended September 30, | |
|---|---|---|---|---|
| | **2013** | **2012** | **2013** | **2012** |
| Net income (loss) | $ (932) | $ 10,082 | $ (18,440) | $ (14,628) |
| Other comprehensive income (loss), net of tax: | | | | |
| Change in foreign currency translation adjustment | (5) | 10 | (30) | (3) |
| Comprehensive income (loss) | $ (937) | $ 10,092 | $ (18,470) | $ (14,631) |

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

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**NGL ENERGY PARTNERS LP**

**Unaudited Condensed Consolidated Statement of Changes in Partners Equity**

**Six Months Ended September 30, 2013**

**(U.S. Dollars in Thousands, except unit amounts)**

| | | Limited Partners | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | General Partner | Common Units | Amount | Subordinated Units | Amount | Accumulated Other Comprehensive Income (Loss) | Noncontrolling Interests | Total Partners Equity |
| BALANCES, MARCH 31, 2013 | $ (50,497) | 47,703,313 | $ 920,998 | 5,919,346 | $ 13,153 | $ 24 | $ 5,740 | $ 889,418 |
| Distributions | (2,928) | | (51,581) | | (5,749) | | (365) | (60,623) |
| Contributions | 504 | | | | | | 1,940 | 2,444 |
| Sales of units in public offerings, net of issuance costs | | 14,450,000 | 415,089 | | | | | 415,089 |
| Units issued in business combinations, net of offering costs | | 2,860,879 | 80,619 | | | | | 80,619 |
| Equity issued pursuant to incentive compensation plan | | 282,692 | 8,619 | | | | | 8,619 |
| Net income (loss) | 4,139 | | (19,439) | | (3,274) | | 134 | (18,440) |
| Foreign currency translation adjustment | | | | | | (30) | | (30) |
| BALANCES, SEPTEMBER 30, 2013 | $ (48,782) | 65,296,884 | $ 1,354,305 | 5,919,346 | $ 4,130 | $ (6) | $ 7,449 | $ 1,317,096 |

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

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**NGL ENERGY PARTNERS LP**

**Unaudited Condensed Consolidated Statements of Cash Flows**

**Six Months Ended September 30, 2013 and 2012**

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

| | Six Months Ended September 30, 2013 | Six Months Ended September 30, 2012 |
|---|---|---|
| OPERATING ACTIVITIES: | | |
| Net loss | $ (18,440) | $ (14,628) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization, including debt issuance cost amortization | 51,821 | 25,476 |
| Loss on early extinguishment of debt | | 5,769 |
| Non-cash equity-based compensation expense | 6,762 | 2,957 |
| Loss (gain) on disposal of assets | 2,163 | (23) |
| Provision for doubtful accounts | 781 | 356 |
| Commodity derivative (gain) loss | 17,881 | (5,019) |
| Other | 8 | 72 |
| Changes in operating assets and liabilities, exclusive of acquisitions: | | |
| Accounts receivable - trade | (27,881) | 101,739 |
| Accounts receivable - affiliates | 19,812 | 6,768 |
| Inventories | (226,727) | (121,981) |
| Prepaid expenses and other current assets | (10,830) | 3,793 |
| Trade accounts payable | 61,093 | (77,965) |
| Accrued expenses and other payables | 18,065 | (15,664) |
| Accounts payable - affiliates | 11,529 | (6,698) |
| Advance payments received from customers | 45,622 | 42,242 |
| Net cash used in operating activities | (48,341) | (52,806) |
| | | |
| INVESTING ACTIVITIES: | | |
| Purchases of long-lived assets | (67,399) | (14,595) |
| Acquisitions of businesses, including acquired working capital, net of cash acquired | (393,008) | (307,082) |
| Cash flows from commodity derivatives | (19,074) | 10,692 |
| Proceeds from sales of assets | 2,224 | 581 |
| Other | | 427 |
| Net cash used in investing activities | (477,257) | (309,977) |
| | | |
| FINANCING ACTIVITIES: | | |
| Proceeds from borrowings under revolving credit facilities | 1,061,500 | 594,675 |
| Payments on revolving credit facilities | (893,000) | (422,675) |
| Issuance of senior notes | | 250,000 |
| Proceeds from borrowings on other long-term debt | 880 | |
| Payments on other long-term debt | (4,507) | (251) |
| Debt issuance costs | (2,218) | (17,839) |
| Contributions | 2,444 | 751 |
| Distributions | (60,623) | (22,883) |
| Proceeds from sale of common units, net of offering costs | 415,089 | (818) |
| Net cash provided by financing activities | 519,565 | 380,960 |
| Net increase (decrease) in cash and cash equivalents | (6,033) | 18,177 |
| Cash and cash equivalents, beginning of period | 11,561 | 7,832 |

| | | | | |
|---|---|---|---|---|
| Cash and cash equivalents, end of period | $ | 5,528 | $ | 26,009 |

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

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**NGL ENERGY PARTNERS LP**

**Notes to Unaudited Condensed Consolidated Financial Statements**

**As of September 30, 2013 and March 31, 2013, and for the**

**Three Months and Six Months Ended September 30, 2013 and 2012**

**Note 1 Organization and Operations**

NGL Energy Partners LP ( we , our , or the Partnership ) is a Delaware limited partnership formed in September 2010. NGL Energy Holdings LLC serves as our general partner. At the time of formation, our operations included a wholesale natural gas liquids business and a retail propane business. We completed an initial public offering in May 2011. Subsequent to our initial public offering, we significantly expanded our operations through a number of business combinations, including the following:

- During October 2011, we completed a business combination with E. Osterman Propane, Inc., its affiliated companies, and members of the Osterman family, whereby we acquired retail propane operations in the northeastern United States.

- During November 2011, we completed a business combination with SemStream, L.P. ( SemStream ), whereby we acquired SemStream s wholesale natural gas liquids supply and marketing operations and its 12 natural gas liquids terminals.

- During January 2012, we completed a business combination with seven companies associated with Pacer Propane Holding, L.P., whereby we acquired retail propane operations, primarily in the western United States.

- During February 2012, we completed a business combination with North American Propane, Inc., whereby we acquired retail propane and distillate operations in the northeastern United States.

- During the year ended March 31, 2012, we completed three additional separate business combination transactions to acquire retail propane operations.

- On June 19, 2012, we completed a business combination with High Sierra Energy, LP and High Sierra Energy GP, LLC (collectively, High Sierra ), whereby we acquired all of the ownership interests in High Sierra. High Sierra s businesses include crude oil gathering, transportation and marketing; water treatment, disposal, and transportation; and natural gas liquids transportation and marketing.

- On November 1, 2012, we completed a business combination whereby we acquired Pecos Gathering & Marketing, L.L.C. and certain of its affiliated companies (collectively, Pecos ). The business of Pecos consists primarily of crude oil purchasing and logistics operations in Texas and New Mexico.

- On December 31, 2012, we completed a business combination whereby we acquired all of the membership interests in Third Coast Towing, LLC ( Third Coast ). The business of Third Coast consists primarily of transporting crude oil via barge.

- During the year ended March 31, 2013, we completed six additional separate business combination transactions to acquire retail propane and distillate operations, primarily in the northeastern and southeastern United States.

- During the year ended March 31, 2013, we completed four additional separate acquisitions to expand the assets and operations of our crude oil logistics and water services businesses.

- During the six months ended September 30, 2013, we completed three acquisitions of retail propane and distillate businesses.

- On July 1, 2013, we completed a business combination whereby we acquired the assets of Crescent Terminals, LLC and the ownership interests in Cierra Marine, LP and its affiliated companies (collectively, Crescent ), whereby we acquired four tow boats, seven crude oil barges, and one crude oil terminal in South Texas.

- On July 2, 2013, we completed a business combination with High Roller Wells Big Lake SWD No. 1, Ltd. ( Big Lake ), whereby we acquired one water disposal facility in West Texas. We also entered into a development agreement that provides us the option to purchase disposal facilities that may be developed in the future.

- On August 2, 2013, we completed a business combination whereby we acquired seven entities affiliated with Oilfield Water Lines LP (collectively, OWL ). The businesses of OWL include water disposal operations and a water transportation business in Texas.

**NGL ENERGY PARTNERS LP**

**Notes to Unaudited Condensed Consolidated Financial Statements - Continued**

**As of September 30, 2013 and March 31, 2013, and for the**

**Three Months and Six Months Ended September 30, 2013 and 2012**

- On September 1, 2013, we completed a business combination whereby we acquired a crude oil marketing business in Oklahoma and Texas.

- On September 3, 2013, we completed a business combination with Coastal Plains Disposal #1, LLC ( Coastal ), in which we acquired the ownership interests in a water disposal facility in Texas.

As of September 30, 2013, our businesses include:

- A crude oil logistics business, the assets of which include crude oil terminals, pipeline injection stations, a fleet of trucks, a fleet of leased rail cars, and a fleet of barges and tow boats. Our crude oil logistics business purchases crude oil from producers and transports it for resale at pipeline injection points, storage terminals, barge loading facilities, rail facilities, refineries, and other trade hubs.

- A water services business, the assets of which include water treatment and disposal facilities, a fleet of water trucks, and frac tanks. Our water services business generates revenues from the gathering, transportation, treatment, and disposal of wastewater generated from oil and natural gas production operations, and from the sale of recycled water and recovered hydrocarbons.

- Our natural gas liquids logistics business, which supplies natural gas liquids to retailers, wholesalers, and refiners throughout the United States and in Canada, and which provides natural gas liquids terminaling services through its 17 terminals throughout the United States and rail car transportation services through its fleet of owned and predominantly leased rail cars. Our natural gas liquids logistics segment purchases propane, butane, and other natural gas liquids from refiners, processing plants, producers, and other parties, and sells the product to retailers, refiners, and other participants in the wholesale markets.

- Our retail propane business, which sells propane, distillates, and equipment and supplies to end users consisting of residential, agricultural, commercial, and industrial customers and to certain re-sellers in more than 20 states.

**Note 2 Significant Accounting Policies**

*Basis of Presentation*

The unaudited condensed consolidated financial statements as of and for the three months and six months ended September 30, 2013 and 2012 include our accounts and those of our controlled subsidiaries. All significant intercompany transactions and account balances have been eliminated in consolidation. The unaudited condensed consolidated balance sheet as of March 31, 2013 is derived from audited financial statements. We have made certain reclassifications to the prior period financial statements to conform with classification methods used in the current fiscal year. These reclassifications had no impact on previously-reported amounts of total assets, liabilities, partners equity, or net income.

The accompanying unaudited condensed consolidated financial statements 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 unaudited condensed consolidated financial statements include all adjustments that we consider necessary for a fair presentation 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 unaudited condensed consolidated financial statements do not include all the information and notes 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, 2013 included in our Annual Report on Form 10-K. Due to the seasonal nature of our natural gas liquids operations and other factors, 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 amounts 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.

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**NGL ENERGY PARTNERS LP**

**Notes to Unaudited Condensed Consolidated Financial Statements - Continued**

**As of September 30, 2013 and March 31, 2013, and for the**

**Three Months and Six Months Ended September 30, 2013 and 2012**

*Significant Accounting Policies*

Our significant accounting policies are consistent with those disclosed in Note 2 of our audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended March 31, 2013.

*Revenue Recognition*

We record revenues from product sales at the time title to the product transfers to the purchaser, which typically occurs upon receipt of the product by the purchaser. We record terminaling, storage and service revenues at the time the service is performed and we record tank and other rentals over the term of the lease. Revenues for the wastewater disposal business are recognized upon receipt of the wastewater at our disposal facilities.

We report taxes collected from customers and remitted to taxing authorities, such as sales and use taxes, on a net basis. Amounts billed to customers for shipping and handling costs are included in revenues in the consolidated statements of operations. Shipping and handling costs associated with product sales are included in operating expenses in the consolidated statements of operations.

We enter into certain contracts whereby we agree to purchase product from a counterparty and to sell the same volume of product to the same counterparty at a different location or time. When such agreements are entered into concurrently and are entered into in contemplation of each other, we record the revenues for these transactions net of the cost of sales.

*Fair Value Measurements*

We apply fair value measurements to certain assets and liabilities, principally our commodity derivative instruments and assets and liabilities acquired in business combinations. Fair value is defined 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 is 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. Fair value measurements 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. Such adjustments were not material to the fair values of our derivative instruments.

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.

- 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. The majority of our fair value measurements related to our derivative financial instruments were categorized as Level 2 at September 30, 2013 and March 31, 2013 (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 model include publicly available prices and forward curves generated from a compilation of data gathered from third parties.

- 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 fair value measurements categorized as Level 3 at September 30, 2013 or March 31, 2013.

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 used 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 determines the applicable level in the fair value

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hierarchy. Assessing the significance of a particular input to the fair value measurement 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, | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| | (in thousands) | | (in thousands) | |
| Interest paid, exclusive of debt issuance costs | $ 8,423 | $ 6,594 | $ 16,908 | $ 9,831 |
| Income taxes paid | $ 369 | $ | $ 650 | $ 176 |
| | | | | |
| Value of common units issued in business combinations | $ 80,619 | $ 2,224 | $ 80,619 | $ 433,668 |

Cash flows from commodity derivative instruments are classified as cash flows from investing activities in the consolidated statements of cash flows.

*Inventories*

Inventories consist of the following:

| | September 30, 2013 | March 31, 2013 |
|---|---|---|
| | (in thousands) | |
| Crude oil | $ 56,514 | $ 46,156 |
| Propane | 207,511 | 45,428 |

| | | | | |
|---|---|---|---|---|
| Butane | | 62,852 | | 23,106 |
| Other natural gas liquids | | 14,947 | | 984 |
| Other | | 13,476 | | 11,221 |
| | $ | 355,300 | $ | 126,895 |

*Accrued Expenses and Other Payables*

Accrued expenses and other payables consist of the following:

| | | September 30, 2013 | | March 31, 2013 |
|---|---|---|---|---|
| | | (in thousands) | | |
| Product exchange liabilities | $ | 42,232 | $ | 6,741 |
| Income and other tax liabilities | | 22,230 | | 22,659 |
| Accrued compensation and benefits | | 14,885 | | 27,252 |
| Other | | 22,641 | | 29,051 |
| | $ | 101,988 | $ | 85,703 |

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*Business Combination Measurement Period*

We record the assets acquired and liabilities assumed in a business combination at their acquisition date fair values. Pursuant to GAAP, an entity is allowed a reasonable period of time to obtain the information necessary to identify and measure the value of the assets acquired and liabilities assumed in a business combination. As described in Note 3, certain of our acquisitions during the fiscal year ended March 31, 2013 and during the six months ended September 30, 2013 are still within this measurement period, and as a result, the acquisition date values we have recorded for the acquired assets and assumed liabilities are subject to change.

Also as described in Note 3, we made certain adjustments during the six months ended September 30, 2013 to our estimates of the acquisition date fair values of assets acquired and liabilities assumed in certain business combinations that occurred during the fiscal year ended March 31, 2013. Due to the immateriality of these adjustments, we did not retroactively adjust the consolidated balance sheet at March 31, 2013 or the consolidated statements of operations for periods during the year ended March 31, 2013 for these measurement period adjustments.

## Note 3 Acquisitions

***Fiscal Year Ending March 31, 2014***

*Oilfield Water Lines, LP*

On August 2, 2013, we completed a business combination with OWL, whereby we acquired water disposal and transportation assets in Texas. We issued 2,463,287 common units, valued at $68.6 million, and paid $167.7 million of cash, net of cash acquired, in exchange for OWL. The acquisition agreements also contemplate a post-closing payment for certain working capital items. The acquisition agreements also include a provision whereby the purchase price may be increased if certain performance targets are achieved. If the acquired assets generate Adjusted EBITDA, as defined in the acquisition agreements, in excess of $3.3 million during any one of the six months following the acquisition, the purchase price will be increased by seventy-two times the amount by which this target is exceeded. The maximum potential increase to the purchase price under this provision is $60 million. We incurred and charged to general and administrative expense during the six months ended September 30, 2013 approximately $0.7 million of costs related to the OWL acquisition.

We are in the process of identifying and determining the fair value of the assets and liabilities acquired in the acquisition of OWL. The estimates of fair value reflected as of September 30, 2013 are subject to change, and such changes could be material. We expect to complete this process prior to finalizing our financial statements for the quarter ending June 30, 2014. We have preliminarily estimated the fair value of the assets acquired (and useful lives) and liabilities assumed as follows (in thousands):

| | | |
|---|---|---|
| Accounts receivable - trade | $ | 8,550 |
| Inventories | | 154 |
| Other current assets | | 382 |
| Property, plant and equipment: | | |
| Land | | 710 |
| Water treatment facilities and equipment (3-30 years) | | 24,495 |
| Vehicles (5-10 years) | | 8,254 |
| Buildings and leasehold improvements (7-30 years) | | 740 |
| Other (3-5 years) | | 264 |
| Intangible assets: | | |
| Customer relationships (10 years) | | 56,000 |
| Goodwill | | 145,558 |
| Trade accounts payable | | (6,063) |
| Accrued expenses | | (2,691) |
| Other noncurrent liabilities | | (64) |
| Fair value of net assets acquired | $ | 236,289 |

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Consideration paid consists of the following (in thousands):

| | | |
|---|---|---|
| Cash paid, net of cash acquired | $ | 167,720 |
| Value of common units issued | | 68,569 |
| Total consideration paid | $ | 236,289 |

Goodwill represents the excess of the consideration paid for the acquired business over the fair value of the individual assets acquired, net of liabilities. Goodwill primarily represents the value of synergies between the acquired entities and the Partnership, the opportunity to use the acquired businesses as a platform for growth, and the acquired assembled workforce. We estimate that all of the goodwill will be deductible for federal income tax purposes.

As described above, the agreements with the former owners of OWL contain a provision whereby the purchase price may be increased if the business meets a specified performance target during the six months subsequent to the acquisition. In order to determine an estimate of the fair value of this contingent consideration at the acquisition date, we identified the variables most likely to impact this performance target. Using historical and projected data, we prepared a Monte-Carlo type simulation and applied an option pricing model. We concluded that the fair value of the contingent consideration approximated zero, and as a result, we did not record a liability at the acquisition date for the contingent consideration. We performed a similar calculation at September 30, 2013, and concluded that the fair value of the contingent consideration continued to approximate zero at September 30, 2013. We will evaluate the fair value of the contingent consideration again at December 31, 2013, and if we conclude that the contingent consideration has a fair value at that date, we will record a liability and a corresponding expense during the three months ending December 31, 2013.

The operations of OWL have been included in our consolidated statement of operations since OWL was acquired on August 2, 2013. Our consolidated statements of operations for the three months and six months ended September 30, 2013 include revenues of $7.3 million and operating income of $0.5 million that was generated by the operations of OWL. The following unaudited pro forma consolidated data below is presented for the six months ended September 30, 2013 as if the OWL acquisition had been completed on April 1, 2013 (in thousands, except per unit amounts). The pro forma earnings per unit are based on the common and subordinated units outstanding as of September 30, 2013.

| | | |
|---|---|---|
| Revenues | $ | 2,991,936 |
| Net loss | | (17,482) |
| Limited partners interest in net loss | | (21,755) |
| Basic and diluted loss per common unit | | (0.31) |
| Basic and diluted loss per subordinated unit | | (0.31) |

The pro forma consolidated data in the table above was prepared by adding the historical results of operations of OWL to our historical results of operations and making certain pro forma adjustments. The pro forma adjustments include: (i) replacing the historical depreciation and amortization expense of OWL with pro forma depreciation and amortization expense, calculated using the estimated fair values of long-lived assets recorded in the acquisition accounting; (ii) replacing the historical interest expense of OWL with pro forma interest expense; and (iii) excluding professional fees and other expenses incurred by us that were directly related to the acquisition. In order to calculate pro forma earnings per unit in the table above, we assumed that: (i) the same number of limited partner units outstanding at September 30, 2013 had been outstanding throughout the period shown in the table, and (ii) all of the common units were eligible for distributions related to the period shown in the table. The pro forma information is not necessarily indicative of the results of operations that would have occurred if the acquisition had been completed on April 1, 2013, nor is it necessarily indicative of the future results of the combined operations. We have not presented pro forma data for periods during the prior fiscal year, as certain of the assets we acquired in the acquisition of OWL had not yet been developed as of September 30, 2012.

*Other Water Services Acquisitions*

During the three months ended September 30, 2013, we completed two separate acquisitions of businesses to expand our water services operations in Texas. On a combined basis, we issued 222,381 common units, valued at $6.8 million, and paid $151.5 million of cash, net of cash acquired, in exchange for the assets and operations of these businesses. The agreements for the

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acquisitions of these businesses contemplate post-closing payments for certain working capital items. We incurred and charged to general and administrative expense during the six months ended September 30, 2013 approximately $0.3 million of costs related to these acquisitions.

We are in the process of identifying and determining the fair value of the assets acquired and liabilities assumed in these two business combinations. The estimates of fair value reflected as of September 30, 2013 are subject to change, and such changes could be material. We expect to complete this process prior to finalizing our financial statements for the quarter ending June 30, 2014. We have preliminarily estimated the fair value of the assets acquired (and useful lives) and liabilities assumed as follows (in thousands):

| | | |
|---|---|---|
| Accounts receivable - trade | $ | 1,959 |
| Inventories | | 192 |
| Other current assets | | 112 |
| Property, plant and equipment: | | |
| Land | | 206 |
| Vehicles (5-10 years) | | 90 |
| Water treatment facilities and equipment (3-30 years) | | 15,683 |
| Buildings and leasehold improvements (7-30 years) | | 616 |
| Other (3-5 years) | | 12 |
| Intangible assets: | | |
| Customer relationships (5-10 years) | | 36,500 |
| Trade names (indefinite life) | | 2,800 |
| Non-compete agreements (3 years) | | 260 |
| Development agreement (5 years) | | 14,000 |
| Option agreement | | 2,500 |
| Goodwill | | 83,813 |
| Trade accounts payable | | (82) |
| Accrued expenses | | (273) |
| Other noncurrent liabilities | | (64) |
| Fair value of net assets acquired | $ | 158,324 |

Consideration paid consists of the following (in thousands):

| | | |
|---|---|---|
| Cash paid, net of cash acquired | $ | 151,530 |
| Value of common units issued | | 6,794 |
| Total consideration paid | $ | 158,324 |

Goodwill represents the excess of the consideration paid for the acquired business over the fair value of the individual assets acquired, net of liabilities. Goodwill primarily represents the value of synergies between the acquired entities and the Partnership, the opportunity to use the acquired businesses as a platform for growth, and the acquired assembled workforce. We estimate that all of the goodwill will be deductible for federal income tax purposes.

As part of one of these business combinations, we entered into a development agreement with the seller of the business. Under this agreement, we have the option to purchase water treatment facilities that are developed by the other party to the agreement during the five years following the business combination. We recorded an intangible asset of $14.0 million at the acquisition date related to this development agreement.

As part of the other business combination, we entered into an option agreement with the seller of the business whereby we have the option to purchase a water treatment facility that is currently under construction. We recorded an intangible asset of $2.5 million at the acquisition date related to this option agreement.

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*Crude Oil Logistics Acquisitions*

During the three months ended September 30, 2013, we completed two separate acquisitions of businesses to expand our crude oil logistics business in Texas and Oklahoma. On a combined basis, we issued 175,211 common units, valued at $5.3 million, and paid $67.8 million of cash, net of cash acquired, in exchange for the assets and operations of these businesses. The agreement for the acquisition of one of these businesses contemplates a post-closing payment for certain working capital items. We incurred and charged to general and administrative expense during the six months ended September 30, 2013 approximately $0.2 million of costs related to these acquisitions.

We are in the process of identifying and determining the fair value of the assets acquired and liabilities assumed in these two business combinations. The estimates of fair value reflected as of September 30, 2013 are subject to change, and such changes could be material. We expect to complete this process prior to finalizing our financial statements for the three months ending June 30, 2014. We have preliminarily estimated the fair value of the assets acquired (and useful lives) and liabilities assumed as follows (in thousands):

| | | |
|---|---|---|
| Accounts receivable - trade | $ | 1,233 |
| Inventories | | 1,021 |
| Property, plant and equipment: | | |
| Vehicles (5-10 years) | | 2,709 |
| Buildings and leasehold improvements (5-30 years) | | 260 |
| Crude oil tanks and related equipment (2-30 years) | | 3,580 |
| Barges and tow boats (20 years) | | 11,996 |
| Other (3-5 years) | | 42 |
| Intangible assets: | | |
| Customer relationships (3 years) | | 1,700 |
| Trade names (indefinite life) | | 530 |
| Goodwill | | 50,856 |
| Trade accounts payable | | (660) |
| Accrued expenses | | (124) |
| Other noncurrent liabilities | | (53) |
| Fair value of net assets acquired | $ | 73,090 |

Consideration paid consists of the following (in thousands):

| | | |
|---|---|---|
| Cash paid, net of cash acquired | $ | 67,834 |
| Value of common units issued | | 5,256 |

| | | |
|---|---|---|
| Total consideration paid | $ | 73,090 |

Goodwill represents the excess of the consideration paid for the acquired business over the fair value of the individual assets acquired, net of liabilities. Goodwill primarily represents the value of synergies between the acquired entities and the Partnership, the opportunity to use the acquired businesses as a platform for growth, and the acquired assembled workforce. We estimate that all of the goodwill will be deductible for federal income tax purposes.

*Retail Propane Acquisitions*

During the six months ended September 30, 2013, we completed three acquisitions of retail propane businesses. On a combined basis, we paid $5.9 million of cash to acquire these assets and operations. The agreements for the acquisitions of these businesses contemplate post-closing payments for certain working capital items. We are in the process of identifying and determining the fair value of the assets acquired and liabilities assumed in these three business combinations, and as a result the estimates of fair value reflected as of September 30, 2013 are subject to change. We expect to complete this process prior to finalizing our financial statements for the fiscal year ending March 31, 2014.

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*Pecos Combination*

On November 1, 2012, we completed a business combination whereby we acquired Pecos. The business of Pecos consists primarily of crude oil marketing and logistics operations in Texas and New Mexico. We paid $132.4 million of cash (net of cash acquired) and assumed certain obligations with a value of $10.2 million under certain equipment financing facilities. Also on November 1, 2012, we entered into a call agreement with the former owners of Pecos pursuant to which the former owners of Pecos agreed to purchase a minimum of $45.0 million or a maximum of $60.0 million of common units from us. On November 12, 2012, the former owners purchased 1,834,414 common units from us for $45.0 million pursuant to this call agreement.

During the three months ended September 30, 2013, we completed the acquisition accounting for this business combination. The following table presents the final calculation of the fair value of the assets acquired (and useful lives) and liabilities assumed in the acquisition of Pecos (in thousands):

| | Final | Estimated as of March 31, 2013 | Difference |
|---|---|---|---|
| Accounts receivable - trade | $ 73,609 | $ 73,704 | $ (95) |
| Inventories | 1,903 | 1,903 | |
| Other current assets | 1,426 | 1,426 | |
| Property, plant and equipment: | | | |
| Vehicles (5-10 years) | 22,097 | 19,193 | 2,904 |
| Buildings and leasehold improvements (5-30 years) | 1,339 | 1,248 | 91 |
| Crude oil tanks and related equipment (2-15 years) | 1,099 | 913 | 186 |
| Land | 223 | 224 | (1) |
| Other (3-5 years) | 36 | 177 | (141) |
| Intangible assets: | | | |
| Customer relationships | | 8,000 | (8,000) |
| Trade names (indefinite life) | 900 | 1,000 | (100) |
| Goodwill | 91,747 | 86,661 | 5,086 |
| Trade accounts payable | (50,795) | (50,808) | 13 |
| Accrued expenses | (963) | (1,020) | 57 |
| Long-term debt | (10,234) | (10,234) | |

| | | | | | |
|---|---|---|---|---|---|
| Fair value of net assets acquired | $ | 132,387 | $ | 132,387 | $ |

Consideration paid consists of the following (in thousands):

| | | |
|---|---|---|
| Cash paid, net of cash acquired | $ | 87,444 |
| Value of common units issued | | 44,943 |
| Total consideration paid | $ | 132,387 |

Goodwill represents the excess of the consideration paid for the acquired business over the fair value of the individual assets acquired, net of liabilities. Goodwill primarily represents the value of synergies between the acquired entities and the Partnership, the opportunity to use the acquired businesses as a platform for growth, and the acquired assembled workforce. We estimate that all of the goodwill will be deductible for federal income tax purposes.

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*Third Coast Combination*

On December 31, 2012, we completed a business combination transaction whereby we acquired all of the membership interests in Third Coast for $43.0 million in cash. The business of Third Coast consists primarily of transporting crude oil via barge. Also on December 31, 2012, we entered into a call agreement with the former owners of Third Coast pursuant to which the former owners of Third Coast agreed to purchase a minimum of $8.0 million or a maximum of $10.0 million of common units from us. On January 11, 2013, the former owners of Third Coast purchased 344,680 common units from us for $8.0 million pursuant to this agreement.

We are in the process of identifying and determining the fair value of the assets and liabilities acquired in the acquisition of Third Coast. The estimates of fair value reflected as of September 30, 2013 are subject to change, and such changes could be material. We expect to complete this process prior to finalizing our financial statements for the three months ending December 31, 2013. We have preliminarily estimated the fair value of the assets acquired (and useful lives) and liabilities assumed as follows (in thousands):

| | Estimated As of | | |
|---|---|---|---|
| | **September 30, 2013** | **March 31, 2013** | **Difference** |
| Accounts receivable - trade | $ 2,195 | $ 2,248 | $ (53) |
| Inventories | 140 | 140 | |
| Property, plant and equipment: | | | |
| Barges and tow boats (20 years) | 12,883 | 12,883 | |
| Other (3-7 years) | 30 | 30 | |
| Intangible assets: | | | |
| Customer relationships (3 years) | 3,000 | 4,000 | (1,000) |
| Trade names (indefinite life) | 850 | 500 | 350 |
| Goodwill | 23,645 | 22,551 | 1,094 |
| Other noncurrent assets | 2,733 | 2,733 | |
| Trade accounts payable | (2,429) | (2,048) | (381) |
| Accrued expenses | (164) | (154) | (10) |
| Fair value of net assets acquired | $ 42,883 | $ 42,883 | $ |

Consideration paid consists of the following (in thousands):

| | |
|---|---|
| Cash paid, net of cash acquired | $ 35,000 |

| | | |
|---|---|---|
| Value of common units issued | | 7,883 |
| Total consideration paid | $ | 42,883 |

Goodwill represents the excess of the consideration paid for the acquired business over the fair value of the individual assets acquired, net of liabilities. Goodwill primarily represents the value of synergies between the acquired entities and the Partnership, the opportunity to use the acquired businesses as a platform for growth, and the acquired assembled workforce. We estimate that all of the goodwill will be deductible for federal income tax purposes.

*Other Crude Oil Logistics and Water Services Business Combinations*

During the year ended March 31, 2013, we completed four separate acquisitions to expand the assets and operations of our crude oil logistics and water services businesses. On a combined basis, we paid $52.6 million in cash and assumed $1.3 million of long-term debt in the form of non-compete agreements. We also issued 516,978 common units, valued at $12.4 million, as partial consideration for one of these acquisitions.

During the three months ended September 30, 2013, we completed the acquisition accounting for these business combinations. The following table presents the final calculation of the fair value of the assets acquired (and useful lives) and liabilities assumed in the acquisition of these businesses (in thousands):

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| | Final | Estimated as of March 31, 2013 | Difference |
|---|---|---|---|
| Accounts receivable - trade | $ 2,676 | $ 2,660 | $ 16 |
| Inventories | 191 | 191 | |
| Other current assets | 737 | 738 | (1) |
| Property, plant and equipment: | | | |
| Land | 218 | 191 | 27 |
| Vehicles (5-10 years) | 853 | 771 | 82 |
| Water treatment facilities and related equipment (3-30 years) | 13,665 | 13,322 | 343 |
| Buildings and leasehold improvements (5-30 years) | 895 | 2,233 | (1,338) |
| Crude oil tanks and related equipment (2-15 years) | 4,510 | 1,781 | 2,729 |
| Other (3-5 years) | 27 | 2 | 25 |
| Construction in progress | 490 | 693 | (203) |
| Intangible assets: | | | |
| Customer relationships (5-10 years) | 13,125 | 6,800 | 6,325 |
| Non-compete agreements (3 years) | 164 | 510 | (346) |
| Trade names (indefinite life) | 2,100 | 500 | 1,600 |
| Goodwill | 34,451 | 43,822 | (9,371) |
| Trade accounts payable | (3,374) | (3,374) | |
| Accrued expenses | (1,914) | (2,026) | 112 |
| Long-term debt | (1,340) | (1,340) | |
| Other noncurrent liabilities | (156) | (156) | |
| Noncontrolling interest | (2,333) | (2,333) | |
| Fair value of net assets acquired | $ 64,985 | $ 64,985 | $ |

Consideration paid consists of the following (in thousands):

| | |
|---|---|
| Cash paid, net of cash acquired | $ 52,552 |
| Value of common units issued | 12,433 |
| Total consideration paid | $ 64,985 |

Goodwill represents the excess of the consideration paid for the acquired business over the fair value of the individual assets acquired, net of liabilities. Goodwill primarily represents the value of synergies between the acquired entities and the Partnership, the opportunity to use the acquired businesses as a platform for growth, and the acquired assembled workforce. We estimate that all of the goodwill will be deductible for federal income tax purposes.

We estimated the fair value of the customer relationship intangible assets using the income approach, which uses valuation techniques to convert future amounts (for example, cash flows or earnings) to a single present amount (discounted). The measurement is based on the value indicated by current market expectations about those future amounts.

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**Note 4 Earnings per Unit**

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

| | Three Months Ended September 30, 2013 | Three Months Ended September 30, 2012 | Six Months Ended September 30, 2013 | Six Months Ended September 30, 2012 |
|---|---|---|---|---|
| | (in thousands, except unit and per unit amounts) | | | |
| Basic and diluted earnings (loss) per common or subordinated unit | | | | |
| Income (loss) attributable to parent equity | $ (941) | $ 10,073 | $ (18,574) | $ (14,577) |
| Income allocated to general partner(*) | (2,451) | (694) | (4,139) | (789) |
| Income (loss) allocated to limited partners | $ (3,392) | $ 9,379 | $ (22,713) | $ (15,366) |
| | | | | |
| Income (loss) allocated to: | | | | |
| Common unitholders | $ (2,830) | $ 8,286 | $ (19,637) | $ (13,112) |
| Subordinated unitholders | $ (562) | $ 1,093 | $ (3,076) | $ (2,254) |
| | | | | |
| Weighted average common units outstanding | 58,909,389 | 44,831,836 | 53,336,969 | 35,730,492 |
| | | | | |
| Weighted average subordinated units outstanding | 5,919,346 | 5,919,346 | 5,919,346 | 5,919,346 |
| | | | | |
| Income (loss) per common unit - basic and diluted | $ (0.05) | $ 0.18 | $ (0.37) | $ (0.37) |
| | | | | |
| Income (loss) per subordinated unit - basic and diluted | $ (0.09) | $ 0.18 | $ (0.52) | $ (0.38) |

(*) The income allocated to the general partner includes distributions to which it is entitled as the holder of incentive distribution rights, which are described in Note 10.

The restricted units described in Note 10 were antidilutive for the three-month and six-month periods ended September 30, 2013 and 2012.

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## Note 5 Property, Plant and Equipment

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

| Description and Useful Life | September 30, 2013 | March 31, 2013 |
|---|---|---|
| | (in thousands) | |
| Natural gas liquids terminal assets (30 years) | $ 64,586 | $ 63,637 |
| Retail propane equipment (5-20 years) | 157,534 | 152,802 |
| Vehicles (5-10 years) | 108,280 | 85,200 |
| Water treatment facilities and equipment (3-30 years) | 150,632 | 91,601 |
| Crude oil tanks and related equipment (2-30 years) | 27,384 | 21,308 |
| Barges and tow boats (20 years) | 33,957 | 21,135 |
| Information technology equipment (3-5 years) | 15,223 | 12,169 |
| Buildings and leasehold improvements (5-30 years) | 45,108 | 48,394 |
| Land | 22,994 | 21,604 |
| Other (3-10 years) | 17,673 | 17,288 |
| Construction in progress | 64,682 | 31,926 |
| | 708,053 | 567,064 |
| Less: Accumulated depreciation | (76,390) | (50,127) |
| Net property, plant and equipment | $ 631,663 | $ 516,937 |

Depreciation expense was $13.7 million and $7.7 million for the three months ended September 30, 2013 and 2012, respectively, and $27.2 million and $13.8 million for the six months ended September 30, 2013 and 2012, respectively.

## Note 6 Goodwill and Intangible Assets

The changes in the balance of goodwill during the six months ended September 30, 2013 were as follows (in thousands):

| | |
|---|---|
| Balance at March 31, 2013 | $ 563,146 |
| Revisions to acquisition accounting (Note 3) | (3,191) |
| Acquisitions | 280,332 |

| | | |
|---|---|---|
| Balance at September 30, 2013 | $ | 840,287 |

Goodwill by reportable segment is as follows:

| | September 30, 2013 | March 31, 2013 |
|---|---|---|
| | (in thousands) | |
| Crude oil logistics | $ 302,000 | $ 244,073 |
| Water services | 338,842 | 119,668 |
| Natural gas liquids logistics | 87,136 | 87,136 |
| Retail propane | 112,309 | 112,269 |
| | $ 840,287 | $ 563,146 |

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

| | | September 30, 2013 | | March 31, 2013 | |
|---|---|---|---|---|---|
| | Useful Lives | Gross Carrying Amount | Accumulated Amortization | Gross Carrying Amount | Accumulated Amortization |
| | | (in thousands) | | | |
| Amortizable | | | | | |
| Customer relationships* | 3-20 years | $ 500,546 | $ 49,475 | $ 407,835 | $ 30,959 |
| Water facility development agreement | 5 years | 14,000 | 467 | | |
| Lease and other agreements | 1-8 years | 15,210 | 8,591 | 15,210 | 7,018 |
| Non-compete agreements | 2-7 years | 11,984 | 4,338 | 11,855 | 2,871 |
| Trade names | 3-10 years | 2,784 | 476 | 2,784 | 326 |
| Debt issuance costs | 5-10 years | 21,712 | 5,443 | 19,494 | 2,981 |
| Total amortizable | | 566,236 | 68,790 | 457,178 | 44,155 |
| | | | | | |
| Non-amortizable | | | | | |
| Trade names | | 34,800 | | 29,580 | |
| Water facility option agreement | | 2,500 | | | |
| Total | | $ 603,536 | $ 68,790 | $ 486,758 | $ 44,155 |

* The weighted-average remaining amortization period for customer relationship intangible assets is approximately 10 years.

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

| **Year Ending March 31,** | |
|---|---|
| 2014 (six months) | $ 29,465 |
| 2015 | 56,816 |
| 2016 | 54,777 |
| 2017 | 51,762 |
| 2018 | 45,891 |
| Thereafter | 258,735 |
| | $ 497,446 |

Amortization expense was as follows:

| Recorded in | Three Months Ended September 30, 2013 | Three Months Ended September 30, 2012 | Six Months Ended September 30, 2013 | Six Months Ended September 30, 2012 |
|---|---|---|---|---|
| | (in thousands) | | | |
| Depreciation and amortization | $ 11,324 | $ 5,654 | $ 20,600 | $ 8,820 |
| Cost of sales | 949 | 1,352 | 1,574 | 1,552 |
| Interest expense | 1,065 | 835 | 2,462 | 1,336 |
| Loss on early extinguishment of debt | | | | 5,769 |
| | $ 13,338 | $ 7,841 | $ 24,636 | $ 17,477 |

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## Note 7 Long-Term Debt

Our long-term debt consists of the following:

| | September 30, 2013 | March 31, 2013 |
|---|---|---|
| | (in thousands) | |
| Revolving credit facility | | |
| Expansion capital loans | $ 416,500 | $ 441,500 |
| Working capital loans | 229,500 | 36,000 |
| | | |
| Senior notes | 250,000 | 250,000 |
| | | |
| Other notes payable | 18,295 | 21,562 |
| | 914,295 | 749,062 |
| Less - current maturities | 8,229 | 8,626 |
| Long-term debt | $ 906,066 | $ 740,436 |

*Credit Agreement*

On June 19, 2012, we entered into a credit agreement (as amended, the Credit Agreement ) with a syndicate of banks. The Credit Agreement includes a revolving credit facility to fund working capital needs (the Working Capital Facility ) and a revolving credit facility to fund acquisitions and expansion projects (the Expansion Capital Facility, and together with the Working Capital Facility, the Revolving Credit Facility ).

The Working Capital Facility had a total capacity of $325.0 million for cash borrowings and letters of credit at September 30, 2013. At September 30, 2013, we had outstanding cash borrowings of $229.5 million and outstanding letters of credit of $85.9 million on the Working Capital Facility, leaving a remaining capacity of $9.6 million at September 30, 2013. The Expansion Capital Facility had a total capacity of $725.0 million for cash borrowings at September 30, 2013. At September 30, 2013, we had outstanding cash borrowings of $416.5 million on the Expansion Capital Facility, leaving a remaining capacity of $308.5 million at September 30, 2013. The capacity available under the Working Capital Facility may be limited by a borrowing base, as defined in the Credit Agreement, which is calculated based on the value of certain working capital items at any point in time. At September 30, 2013, the borrowing base provisions of the Credit Agreement did not have any impact on the capacity available under the Working Capital Facility.

The commitments under the Credit Agreement expire on June 19, 2017. We have the right to pre-pay outstanding borrowings under the Credit Agreement without incurring any penalties, and pre-payments of principal may be required if we enter into certain transactions to sell assets or obtain new borrowings.

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All borrowings under the Credit Agreement bear interest, at our option, at (i) an alternate base rate plus a margin of 1.75% to 2.75% per annum or (ii) an adjusted LIBOR rate plus a margin of 2.75% to 3.75% per annum. The applicable margin is determined based on our consolidated leverage ratio, as defined in the Credit Agreement. At September 30, 2013, the interest rate in effect on outstanding LIBOR borrowings was 3.19%, calculated as the LIBOR rate of 0.19% plus a margin of 3.0%. At September 30, 2013, the interest rate in effect on outstanding base rate borrowings was 5.25%, calculated as the base rate of 3.25% plus a margin of 2.0%. Commitment fees are charged at a rate ranging from 0.38% to 0.50% on any unused credit. At September 30, 2013, our outstanding borrowings and interest rates under our Revolving Credit Facility were as follows (dollars in thousands):

| | Amount | Rate |
|---|---|---|
| Expansion Capital Facility | | |
| LIBOR borrowings | $ 416,500 | 3.19% |
| Working Capital Facility | | |
| LIBOR borrowings | 204,000 | 3.18% |
| Base rate borrowings | 25,500 | 5.25% |

The Credit Agreement is secured by substantially all of our assets. The Credit Agreement specifies that our leverage ratio, as defined in the Credit Agreement, cannot exceed 4.25 to 1.0 at any quarter end. At September 30, 2013, our leverage ratio was less than 2.5 to 1. The Credit Agreement also specifies that our interest coverage ratio, as defined in the Credit Agreement, cannot be less than 2.75 to 1 as of the last day of any fiscal quarter. At September 30, 2013, our interest coverage ratio was greater than 7.5 to 1.

The Credit Agreement contains various customary representations, warranties, and additional covenants, including, without limitation, limitations on fundamental changes and limitations on indebtedness and liens. Our obligations under the Credit Agreement may be accelerated following certain events of default (subject to applicable cure periods), including, without limitation, (i) the failure to pay principal or interest when due, (ii) a breach by the Partnership or its subsidiaries of any material representation or warranty or any covenant made in the Credit Agreement, or (iii) certain events of bankruptcy or insolvency.

At September 30, 2013, we were in compliance with all covenants under the Credit Agreement.

As described in Note 14, we entered into an amendment to the Credit Agreement during November 2013. This amendment increased the capacity on the Expansion Capital and Working Capital facilities, extended the maturity date of the Credit Agreement, and reduced the interest rate on LIBOR rate borrowings.

*Senior Notes*

On June 19, 2012, we entered into a note purchase agreement (the Note Purchase Agreement ) whereby we issued $250 million of Senior Notes in a private placement (the Senior Notes ). The Senior Notes have an aggregate principal amount of $250.0 million and bear interest at a fixed rate of 6.65%. Interest is payable quarterly. The Senior Notes are required to be repaid in semi-annual installments of $25.0 million beginning on December 19, 2017 and ending on the maturity date of June 19, 2022. We have the option to pre-pay outstanding principal, although we would incur a pre-payment penalty. The Senior Notes are secured by substantially all of our assets and rank equal in priority with borrowings under the Credit Agreement.

The Note Purchase Agreement contains various customary representations, warranties, and additional covenants that, among other things, limit our ability to (subject to certain exceptions): (i) incur additional debt, (ii) pay dividends and make other restricted payments, (iii) create or permit certain liens, (iv) create or permit restrictions on the ability of certain of our subsidiaries to pay dividends or make other distributions to us, (v) enter into transactions with affiliates, (vi) enter into sale and leaseback transactions and (vii) consolidate or merge or sell all or substantially all or any portion of our assets. In addition, the Note Purchase Agreement contains the same leverage ratio and interest coverage ratio requirements as our Credit Agreement, which are described above.

The Note Purchase Agreement provides for customary events of default that include, among other things (subject in certain cases to customary grace and cure periods): (i) non-payment of principal or interest, (ii) breach of certain covenants contained in the Note Purchase Agreement or the Senior Notes, (iii) failure to pay certain other indebtedness or the acceleration of certain other indebtedness prior to maturity if the total amount of such indebtedness unpaid or accelerated exceeds $10 million, (iv) the rendering of a judgment for the payment of money in excess of $10 million, (v) the failure of the Note Purchase Agreement, the Senior Notes, or the guarantees by the subsidiary guarantors to be in full force and effect in all material respects and (vi) certain events of bankruptcy or insolvency. Generally, if an event of default occurs (subject to certain exceptions), the trustee or the holders of at least 51% in aggregate principal amount of the then outstanding Senior Notes of any series may declare all of the Senior Notes of such series to be due and payable immediately.

At September 30, 2013, we were in compliance with all covenants under the Note Purchase Agreement and the Senior Notes.

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*Senior Unsecured Notes*

As described in Note 14, we issued $450.0 million of senior unsecured notes during October 2013. These senior unsecured notes bear interest at a fixed rate of 6.875% and mature on October 15, 2021.

*Other Notes Payable*

We have executed various non-interest bearing notes payable, primarily related to non-compete agreements entered into in connection with acquisitions of businesses. We also have certain notes payable that relate to equipment financing, which have interest rates ranging from 2.1% to 4.9% at September 30, 2013.

*Debt Maturity Schedule*

The scheduled maturities of our long-term debt are as follows as of September 30, 2013 (in thousands):

| Year Ending March 31, | Revolving Credit Facility | Senior Notes | Other Notes Payable | Total |
|---|---|---|---|---|
| 2014 (six months) | $ | $ | $ 5,780 | $ 5,780 |
| 2015 | | | 6,913 | 6,913 |
| 2016 | | | 3,186 | 3,186 |
| 2017 | | | 1,888 | 1,888 |
| 2018 | 646,000 | 25,000 | 328 | 671,328 |
| Thereafter | | 225,000 | 200 | 225,200 |
| | $ 646,000 | $ 250,000 | $ 18,295 | $ 914,295 |

*Previous Credit Facilities*

On June 19, 2012, we made a principal payment of $306.8 million to retire our previous revolving credit facility. Upon retirement of this facility, we wrote off the portion of the debt issuance cost asset that had not yet been amortized. This expense is reported as Loss on early extinguishment of debt in our consolidated statement of operations.

**Note 8 Income Taxes**

We believe that we qualify as a partnership for income tax purposes. As such, we generally do not pay U.S. federal income tax. Rather, each owner reports his or her share of our income or loss on his or her individual tax return. The aggregate difference in

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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.

We have two taxable corporate subsidiaries in the United States and three taxable corporate subsidiaries in Canada. The income tax provision reported in our consolidated statements of operations relates primarily to these subsidiaries.

A publicly-traded partnership is required to generate at least 90% of its gross income (as defined for federal income tax purposes) from certain qualifying sources. Income generated by our taxable corporate subsidiaries is excluded from this qualifying income calculation. Although we routinely generate income outside of our corporate subsidiaries that is non-qualifying, we believe that at least 90% of our gross income has been qualifying income for both of the calendar years since our initial public offering.

We evaluate uncertain tax positions for recognition and measurement in the consolidated financial statements. To recognize a tax position, we determine whether it is more likely than not that the tax position will be sustained upon examination, including resolution of any related appeals or litigation, based on the technical merits of the position. A tax position that meets the more likely than not threshold is measured to determine the amount of benefit to be recognized in the consolidated financial statements. We had no material uncertain tax positions that required recognition in the consolidated financial statements at September 30, 2013.

**Note 9 Commitments and Contingencies**

*Legal Contingencies*

We are party to various claims, legal actions, and complaints arising in the ordinary course of business. In the opinion of our management, the ultimate resolution of these claims, legal actions, and complaints, after consideration of amounts accrued, insurance coverage, and other arrangements, will not have a material adverse effect on our consolidated financial position, results of operations or cash flows. However, the outcome of such matters is inherently uncertain, and estimates of our liabilities may change materially as circumstances develop.

*Customer Dispute*

A customer of our crude oil logistics segment has disputed the transportation rate schedule we used to bill the customer for services that we provided from November 2012 through February 2013, which was the same rate schedule that Pecos used to bill the customer from April 2011 through October 2012 (prior to our acquisition of Pecos). The customer has not paid $1.7 million of the amount we charged for services we provided from November 2012 through February 2013. In May 2013, we filed a petition in the District Court of Harris County, Texas seeking to collect these unpaid fees from the customer. Later in May 2013, the customer filed an answer and counterclaim seeking to recover $5.5 million that it paid to Pecos prior to our acquisition of Pecos. We have not recorded revenue for the $1.7 million of unpaid fees charged from November 2012 through February 2013, pending resolution of the dispute. During August 2013, the customer notified us that it intended to withhold payment of approximately $3.3 million for services performed by us during the period from June 2013 through August 2013, pending resolution of the dispute, although the customer has not disputed the validity of the amounts billed for services performed during this time frame. Upon receiving this notification, we ceased providing services under this contract, and on November 5, 2013, we filed a petition in the District Court of Harris County, Texas seeking to collect these unpaid fees from the customer. We are not able to reliably predict the outcome of this dispute at this time, but we do not believe the outcome will have a material adverse effect on our consolidated financial position or results of operations.

*Canadian Fuel and Sales Taxes*

The taxing authority of a province in Canada completed an audit of fuel and sales tax payments and concluded that High Sierra should have collected from customers and remitted to the taxing authority approximately $14.9 million of fuel taxes and sales taxes on certain historical sales. High Sierra had not collected and remitted fuel and sales taxes on these transactions, as High Sierra believed the transactions were exempt from these taxes. We are in the process of gathering information to support our position that the transactions were exempt from the taxes, which we believe could substantially reduce the amount of the tax that would be assessed. If we are unsuccessful in demonstrating that these transactions were exempt and if these taxes are ultimately assessed, we would be required to remit payment to the taxing authority; however, we expect we would be able to recover these payments from the customers pursuant to the terms of our contracts with the customers. Although the outcome of this matter is not certain at this time, we do not believe the ultimate resolution of this matter will have a material adverse effect on our consolidated financial position or results of operations. We recorded in the acquisition accounting for the merger with High Sierra a liability of $14.9 million, which is the full amount identified during the audit, and a receivable of $14.1 million, which represents the amount we would expect to recover from the customers in the event we are ultimately required to pay the amount identified during the audit.

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*Environmental Matters*

Our operations are subject to extensive federal, state, and local environmental laws and regulations. Although we believe our operations are in substantial compliance with applicable environmental laws and regulations, risks of additional costs and liabilities are inherent in our business, and there can be no assurance that significant costs will not be incurred. Moreover, it is possible that other developments, such as increasingly stringent environmental laws, regulations and enforcement policies thereunder, and claims for damages to property or persons resulting from the operations, could result in substantial costs. Accordingly, we have adopted policies, practices, and procedures in the areas of pollution control, product safety, occupational health, and the handling, storage, use, and disposal of hazardous materials designed to prevent material environmental or other damage, and to limit the financial liability that could result from such events. However, some risk of environmental or other damage is inherent in our business.

*Asset Retirement Obligations*

We have recorded an asset retirement obligation liability of $1.8 million at September 30, 2013. This liability is related to the wastewater disposal assets and crude oil pipeline injection facilities for which we have contractual and regulatory obligations to perform remediation and, in some instances, dismantlement and removal activities when the assets are retired.

In addition to the obligations described above, we may be obligated to remove facilities or perform other remediation upon retirement of certain other assets. However, we do not believe the present value of these asset retirement obligations, under current laws and regulations, after taking into consideration the estimated lives of our facilities, is material to our consolidated financial position or results of operations.

*Operating Leases*

We have executed various non-cancelable operating lease agreements for product storage, office space, vehicles, real estate, and equipment. Future minimum lease payments under contractual commitments as of September 30, 2013 are as follows (in thousands):

| **Year Ending March 31,** | | |
| --- | --- | --- |
| 2014 (six months) | $ | 31,924 |

| | | |
|---|---|---|
| 2015 | | 51,652 |
| 2016 | | 46,720 |
| 2017 | | 44,174 |
| 2018 | | 36,636 |
| Thereafter | | 80,402 |
| Total | $ | 291,508 |

Rental expense relating to operating leases was $17.0 million during the three months ended September 30, 2013 and $12.5 million during the three months ended September 30, 2012. Rental expense relating to operating leases was $32.5 million during the six months ended September 30, 2013 and $17.2 million during the six months ended September 30, 2012.

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*Sales and Purchase Contracts*

We have entered into sales and purchase contracts for natural gas liquids (including propane, butane, and ethane) and crude oil to be delivered in future periods. These contracts require that the parties physically settle the transactions with inventory. At September 30, 2013, we had the following such commitments outstanding:

| | Volume | | Value |
|---|---|---|---|
| | (in thousands) | | |
| Natural gas liquids fixed-price purchase commitments (gallons) | 79,041 | $ | 74,356 |
| Natural gas liquids floating-price purchase commitments (gallons) | 653,808 | | 722,942 |
| Natural gas liquids fixed-price sale commitments (gallons) | 146,432 | | 183,717 |
| Natural gas liquids floating-price sale commitments (gallons) | 464,196 | | 561,382 |
| | | | |
| Crude oil floating-price purchase commitments (barrels) | 4,963 | | 509,734 |
| Crude oil floating-price sale commitments (barrels) | 4,584 | | 522,787 |

We account for the contracts shown in the table above as normal purchases and normal sales. Under this accounting policy election, we do not record the contracts at fair value at each balance sheet date; instead, we record the purchase or sale at the contracted value once the delivery occurs.

Certain of the forward purchase and sale contracts shown in the table above were acquired in the June 2012 merger with High Sierra. We recorded these contracts at their estimated fair values at the merger date, and we are amortizing these assets and liabilities to cost of sales over the remaining terms of the contracts. We recorded the following expense (benefit) to cost of sales related to the amortization of the assets and liabilities related to these contracts (in thousands):

| For the Six Months Ended: | | Natural Gas Liquids Logistics Segment | | Crude Oil Logistics Segment | | Total |
|---|---|---|---|---|---|---|
| September 30, 2013 | $ | 2,420 | $ | (164) | $ | 2,256 |
| September 30, 2012 | | 2,742 | | (464) | | 2,278 |

At September 30, 2013, the net unamortized balance included in our consolidated balance sheet is a net asset of $0.3 million, which we will amortize to cost of sales during the third and fourth quarters of the fiscal year ending March 31, 2014.

**Note 10 Equity**

***Partnership Equity***

The Partnership s equity consists of a 0.1% general partner interest and a 99.9% limited partner interest. Limited partner equity includes common and subordinated units. The common and subordinated 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.

The subordination period will end on the first business day after we have earned and paid the minimum quarterly distribution on each outstanding common unit and subordinated unit and the corresponding distribution on the general partner interest for each of three consecutive, non-overlapping four-quarter periods ending on or after June 30, 2014. The subordination period will terminate automatically if the general partner is removed without cause and the units held by the general partner and its affiliates are not voted in favor of removal. When

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the subordination period lapses or otherwise terminates, all remaining subordinated units will convert into common units on a one-for-one basis and the common units will no longer be entitled to arrearages.

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

*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.

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.

The following table illustrates the percentage allocations of available cash from operating surplus between the unitholders and our general partner based on the specified target distribution levels. The amounts set forth under Marginal Percentage Interest in Distributions are the percentage interests of our general partner and the unitholders in any available cash from operating surplus we distribute up to and including the

corresponding amount in the column Total Quarterly Distribution per Unit. The percentage interests shown for our unitholders and our general partner for the minimum quarterly distribution are also applicable to quarterly distribution amounts that are less than the minimum quarterly distribution. The percentage interests set forth below for our general partner include its 0.1% general partner interest, assume our general partner has contributed any additional capital necessary to maintain its 0.1% general partner interest and has not transferred its incentive distribution rights and there are no arrearages on common units.

| | | | | | | | Marginal Percentage Interest In Distributions | |
|---|---|---|---|---|---|---|---|---|
| | | Total Quarterly Distribution Per Unit | | | | | Unitholders | General Partner |
| Minimum quarterly distribution | | | | | $ | 0.337500 | 99.9% | 0.1% |
| First target distribution | above | $ | 0.337500 | up to | $ | 0.388125 | 99.9% | 0.1% |
| Second target distribution | above | $ | 0.388125 | up to | $ | 0.421875 | 86.9% | 13.1% |
| Third target distribution | above | $ | 0.421875 | up to | $ | 0.506250 | 76.9% | 23.1% |
| Thereafter | above | $ | 0.506250 | | | | 51.9% | 48.1% |

During the three months ended September 30, 2013, we distributed a total of $33.5 million ($0.49375 per common and subordinated limited partner unit and per general partner notional unit) to our unitholders of record as of August 5, 2013. This included an incentive distribution of $1.7 million to the general partner. On October 23, 2013, we declared a distribution of $0.51125 per common unit, to be paid on November 14, 2013 to unitholders of record on November 4, 2013. This distribution amounts to $38.4 million, including amounts to be paid on common, subordinated, and general partner notional units and the amount to be paid on incentive distribution rights.

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*Equity Offerings*

On July 5, 2013, we completed a public offering of 10,350,000 common units. We received net proceeds of approximately $287.5 million, after underwriting discounts and commissions of $12.0 million and offering costs of $0.7 million. We used the net proceeds from the offering to reduce the outstanding balance on our Revolving Credit Facility.

On September 25, 2013, we completed a public offering of 4,100,000 common units. We received net proceeds of $127.6 million, after underwriting discounts and commissions of $5.0 million and offering costs of $0.2 million. We used the net proceeds from the offering to reduce the outstanding balance on our Revolving Credit Facility.

***Equity-Based Incentive Compensation***

Our general partner has adopted a long-term incentive plan (the LTIP ), which allows for the issuance of equity-based compensation to employees and directors. During the fiscal year ended March 31, 2013 and during the six months ended September 30, 2013, the board of directors of our general partner granted certain restricted units to employees and directors, which will vest in tranches, subject to the continued service of the recipients. The awards may also vest in the event of a change in control, at the discretion of the board of directors. No distributions will accrue to or be paid on the restricted units during the vesting period.

The following table summarizes the restricted unit activity during the six months ended September 30, 2013:

| | |
|---|---|
| Unvested restricted units at March 31, 2013 | 1,444,900 |
| Units granted | 323,000 |
| Units vested and issued | (282,692) |
| Units withheld for employee taxes | (116,108) |
| Units forfeited | (15,000) |
| Unvested restricted units at September 30, 2013 | 1,354,100 |

The scheduled vesting of the awards is summarized below:

| Vesting Date | Number of Awards |
|---|---|
| January 1, 2014 | 20,000 |
| July 1, 2014 | 398,300 |
| January 1, 2015 | 12,000 |
| July 1, 2015 | 320,800 |
| January 1, 2016 | 12,000 |
| July 1, 2016 | 312,000 |
| January 1, 2017 | 12,000 |
| July 1, 2017 | 220,500 |
| January 1, 2018 | 12,000 |
| July 1, 2018 | 34,500 |
| Total unvested units at September 30, 2013 | 1,354,100 |

On July 1, 2013, 398,800 of the awards vested. We issued 282,692 common units to the recipients and we recorded an increase to equity of $8.6 million. We withheld the remaining 116,108 common units, in return for which we paid $3.5 million of withholding taxes on behalf of the recipients.

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We record the expense for each tranche on a straight-line basis over the period beginning with the vesting of the previous tranche and ending with the vesting of the tranche. We adjust the cumulative expense recorded through the reporting date using the estimated fair value of the awards at the reporting date. The impact of the lack of distribution rights during the vesting period was estimated using the value of the most recent distribution and assumptions that a market participant might make about future distribution growth. The following table summarizes the expense we recorded related to the restricted unit awards during the periods indicated (in thousands):

| | | |
|---|---|---|
| **For the Three Months Ended:** | | |
| September 30, 2013 | $ | 3,217 |
| September 30, 2012 | | 2,302 |
| | | |
| **For the Six Months Ended:** | | |
| September 30, 2013 | $ | 10,292 |
| September 30, 2012 | | 2,957 |

We estimate that the future expense we will record on the unvested awards as of September 30, 2013 will be as follows (in thousands), after taking into consideration an estimate of forfeitures of approximately 77,000 units. For purposes of this calculation, we have used the closing price of the common units on September 30, 2013,which was $30.84.

| **Year Ending March 31,** | | |
|---|---|---|
| 2014 (six months) | $ | 6,404 |
| 2015 | | 10,420 |
| 2016 | | 9,407 |
| 2017 | | 7,217 |
| 2018 | | 2,515 |
| 2019 | | 240 |
| Total | $ | 36,203 |

Following is a rollforward of the liability related to equity-based compensation, which is reported within accrued expenses and other payables on our consolidated balance sheets (in thousands):

| | | |
|---|---|---|
| Balance at March 31, 2013 | $ | 5,043 |
| Expense recorded during the six months ended September 30, 2013 | | 10,292 |
| Value of units vested and issued | | (8,619) |
| Taxes paid on behalf of participants | | (3,530) |

| | | |
|---|---|---|
| Balance at September 30, 2013 | $ | 3,186 |

The weighted-average fair value of the awards at September 30, 2013 was $26.03, which was calculated as the closing price of the common units on September 30, 2013, adjusted to reflect the fact that the restricted units are not entitled to distributions during the vesting period.

The number of common units that may be delivered pursuant to awards under the LTIP is limited to 10% of the issued and outstanding common and subordinated units. The maximum number of units deliverable under the plan automatically increases to 10% of the issued and outstanding common and subordinated units immediately after each issuance of common units, unless the plan administrator determines to increase the maximum number of units deliverable by a lesser amount. Units withheld to satisfy tax withholding obligations will not be considered to be delivered under the LTIP. In addition, if an award is forfeited, canceled, exercised, paid or otherwise terminates or expires without the delivery of units, the units subject to such award are again available for new awards under the LTIP. As of September 30, 2013, approximately 5.3 million units remain available for issuance under the LTIP.

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## Note 11 Fair Value of Financial Instruments

Our cash and cash equivalents, accounts receivable, accounts payable, accrued expenses, and other current liabilities (excluding derivative instruments) are carried at amounts which reasonably approximate their fair values due to their short-term nature. We believe the carrying amounts of our long-term debt instruments, including the Revolving Credit Facility and the Senior Notes, approximate their fair values, as we do not believe market conditions have changed materially since we entered into these debt agreements.

*Commodity Derivatives*

The following table summarizes the estimated fair values of the commodity derivative assets (liabilities) reported on the consolidated balance sheet at September 30, 2013:

| | Derivative Assets | Derivative Liabilities |
|---|---|---|
| | (in thousands) | |
| Level 1 measurements | $ 634 | $ (2,747) |
| Level 2 measurements | 9,006 | (15,551) |
| | 9,640 | (18,298) |
| | | |
| Netting of counterparty contracts (1) | (5,952) | 5,952 |
| Cash collateral provided | | 2,745 |
| Commodity contracts reported on consolidated balance sheet | $ 3,688 | $ (9,601) |

(1) Relates to derivative assets and liabilities that are expected to be net settled on an exchange or through a master netting arrangement with the counterparty.

The following table summarizes the estimated fair values of the commodity derivative assets (liabilities) reported on the consolidated balance sheet at March 31, 2013:

| | Derivative Assets | Derivative Liabilities |
|---|---|---|
| | (in thousands) | |
| Level 1 measurements | $ 947 | $ (3,324) |
| Level 2 measurements | 9,911 | (13,280) |
| | 10,858 | (16,604) |
| | | |
| Netting of counterparty contracts (1) | (3,503) | 3,503 |
| Cash collateral provided or held | (1,760) | 400 |
| Commodity contracts reported on consolidated balance sheet | $ 5,595 | $ (12,701) |

(1) Relates to derivative assets and liabilities that are expected to be net settled on an exchange or through a master netting arrangement with the counterparty.

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**Notes to Unaudited Condensed Consolidated Financial Statements - Continued**

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The commodity derivative assets (liabilities) are reported in the following accounts on the consolidated balance sheets:

| | September 30, 2013 | | March 31, 2013 | |
|---|---|---|---|---|
| | (in thousands) | | | |
| Prepaid expenses and other current assets | $ | 3,547 | $ | 5,551 |
| Other noncurrent assets | | 141 | | 44 |
| Accrued expenses and other payables | | (9,154) | | (12,701) |
| Other noncurrent liabilities | | (447) | | |
| Net liability | $ | (5,913) | $ | (7,106) |

The following table sets forth our open commodity derivative contract positions at September 30, 2013 and March 31, 2013. We do not account for these derivatives as hedges.

| Contracts | Settlement Period | | Total Notional Units (Barrels) | | Fair Value of Net Assets (Liabilities) |
|---|---|---|---|---|---|
| | | | (in thousands) | | |
| As of September 30, 2013 - | | | | | |
| Butane cross-commodity (1) | October 2013 | March 2015 | 858 | $ | (3,034) |
| Crude oil cross-commodity (2) | October 2013 | March 2015 | (633) | | (3,875) |
| Crude oil fixed-price (3) | October 2013 | September 2014 | (927) | | 910 |
| Crude oil index (4) | October 2013 | June 2014 | 434 | | 555 |
| Propane fixed-price (5) | October 2013 | March 2015 | (904) | | (1,977) |
| Butane fixed-price (6) | October 2013 | March 2014 | (464) | | (1,208) |
| Other | October 2013 | March 2014 | 26 | | (29) |
| | | | | | (8,658) |
| Net cash collateral provided | | | | | 2,745 |
| Net fair value of commodity derivatives on consolidated balance sheet | | | | $ | (5,913) |
| | | | | | |
| As of March 31, 2013 - | | | | | |
| Butane cross-commodity (1) | April 2013 | March 2014 | 1,546 | $ | (2,557) |
| Crude oil cross-commodity (2) | April 2013 | March 2014 | (1,116) | | (7,651) |
| Crude oil fixed-price (3) | April 2013 | March 2014 | (144) | | 1,033 |
| Crude oil index (4) | April 2013 | June 2014 | (91) | | 153 |
| Propane fixed-price (5) | April 2013 | March 2014 | (282) | | 3,197 |
| Other | May 2013 | June 2013 | 8 | | 79 |
| | | | | | (5,746) |

| | | |
|---|---|---|
| Net cash collateral held | | (1,360) |
| Net fair value of commodity derivatives on consolidated balance sheet | $ | (7,106) |

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(1) Butane cross-commodity Our natural gas liquids logistics segment purchases or sells certain commodities for which the pricing mechanism is based on a different commodity. The contracts listed in this table as Butane cross-commodity

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represent financial derivatives we have entered into as an economic hedge against the risk of changes in butane prices relative to the price of the other commodity.

(2) Crude oil cross-commodity Our natural gas liquids logistics segment purchases or sells certain commodities for which the pricing mechanism is based on a different commodity. The contracts listed in this table as Crude oil cross-commodity represent financial derivatives we have entered into as an economic hedge against the risk of changes in crude oil prices relative to the price of the other commodity.

(3) Crude oil fixed-price Our crude oil logistics segment routinely purchases crude oil inventory to enable us to fulfill future orders expected to be placed by our customers. The contracts listed in this table as Crude oil fixed-price represent financial derivatives we have entered into as an economic hedge against the risk that crude oil prices will decline while we are holding the inventory.

(4) Crude oil index Our crude oil logistics segment routinely enters into crude oil purchase and sale contracts that are priced based on an index. These indices may vary in the type or location of crude oil, or in the timing of delivery within a given month. The contracts listed in this table as Crude oil index represent financial derivatives entered into as economic hedges against the risk that changes in index price differentials would reduce the margins between the purchase and the sale transactions.

(5) Propane fixed-price Our natural gas liquids logistics segment routinely purchases propane inventory to enable us to fulfill future orders expected to be placed by our customers. The contracts listed in this table as Propane fixed-price represent financial derivatives we have entered into as an economic hedge against the risk that propane prices will decline while we are holding the inventory.

(6) Butane fixed-price Our natural gas liquids logistics segment routinely purchases butane inventory to enable us to fulfill future orders expected to be placed by our customers. The contracts listed in this table as Butane fixed-price represent financial derivatives we have entered into as an economic hedge against the risk that butane prices will decline while we are holding the inventory.

We recorded the following net gains (losses) from our commodity derivatives to cost of sales during the periods indicated:

| Three Months Ended | Six Months Ended |
| --- | --- |

| | September 30, | | September 30, | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| | (in thousands) | | | |
| Commodity contracts - | | | | |
| Unrealized gain (loss) | $ (167) | $ 9,476 | $ (3,745) | $ 11,405 |
| Realized gain (loss) | (10,505) | (8,685) | (14,136) | (6,386) |
| Total | $ (10,672) | $ 791 | $ (17,881) | $ 5,019 |

*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 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.

As is customary in the crude oil industry, we generally receive payment from customers for sales of crude oil on a monthly basis. As a result, receivables from individual customers in our crude oil marketing business are generally higher than the receivables from customers in our other segments.

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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.

*Interest Rate Risk*

The interest rate on our Revolving Credit Facility floats based on market indices. At September 30, 2013, we had $620.5 million of debt on our Revolving Credit Facility at a rate of 3.19% and $25.5 million of debt on our Revolving Credit Facility at a rate of 5.25%. A change of 0.125% in the interest rate would result in a change to annual interest expense of approximately $0.8 million on the revolving debt balance of $646.0 million.

**Note 12 Segments**

Our reportable segments are based on the way in which our management structure is organized. Certain financial data related to our segments is shown below. Transactions between segments are recorded based on prices negotiated between the segments.

Our crude oil logistics segment sells crude oil and provides crude oil transportation services to wholesalers, refiners, and producers. Our water services segment provides services for the transportation, treatment, and disposal of wastewater generated from oil and natural gas production, and generates revenue from the sale of recycled wastewater and recovered hydrocarbons. Our natural gas liquids logistics segment supplies propane and other natural gas liquids, and provides natural gas liquids transportation, terminaling, and storage services to retailers, wholesalers, and refiners. Our natural gas liquids logistics segment consists of two divisions, which are organized based on the locations in which the divisions are headquartered. Our retail propane segment sells propane and distillates to end users consisting of residential, agricultural, commercial, and industrial customers, and to certain re-sellers. Our retail propane segment consists of two divisions, which are organized based on the location of the operations.

Items labeled corporate and other in the table below include the operations of a compressor leasing business that we acquired in our June 2012 merger with High Sierra, and also include certain corporate expenses that are incurred and are not allocated to the reportable segments. This data is included to reconcile the data for the reportable segments to data in our consolidated financial statements.

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**Three Months and Six Months Ended September 30, 2013 and 2012**

| | Three Months Ended September 30, 2013 | Three Months Ended September 30, 2012 | Six Months Ended September 30, 2013 | Six Months Ended September 30, 2012 |
|---|---|---|---|---|
| | (in thousands) | | | |
| Revenues: | | | | |
| Crude oil logistics - | | | | |
| Crude oil sales | $ 1,013,061 | $ 712,119 | $ 1,941,595 | $ 785,677 |
| Other revenues | 9,794 | 2,214 | 19,729 | 2,534 |
| Water services - | | | | |
| Water treatment and disposal | 28,823 | 12,724 | 47,511 | 14,236 |
| Other revenues | 5,367 | 3,086 | 7,192 | 3,515 |
| Natural gas liquids logistics - | | | | |
| Propane sales | 191,437 | 116,980 | 315,274 | 222,824 |
| Other natural gas liquids sales | 308,606 | 244,346 | 558,459 | 339,762 |
| Other revenues | 9,250 | 5,495 | 18,114 | 8,321 |
| Retail propane - | | | | |
| Propane sales | 40,651 | 37,939 | 87,342 | 77,791 |
| Distillate sales | 10,562 | 10,859 | 28,431 | 22,623 |
| Other retail sales | 8,198 | 8,205 | 15,898 | 15,797 |
| Other | 1,485 | 1,308 | 2,959 | 1,461 |
| Elimination of intersegment sales | (33,297) | (19,765) | (62,610) | (32,595) |
| Total revenues | $ 1,593,937 | $ 1,135,510 | $ 2,979,894 | $ 1,461,946 |
| | | | | |
| Depreciation and amortization: | | | | |
| Crude oil logistics | $ 3,330 | $ 1,680 | $ 8,014 | $ 1,940 |
| Water services | 11,438 | 2,768 | 18,794 | 3,050 |
| Natural gas liquids logistics | 2,672 | 3,553 | 5,376 | 5,450 |
| Retail propane | 6,871 | 5,187 | 14,111 | 11,928 |
| Other | 750 | 173 | 1,490 | 220 |
| Total depreciation and amortization | $ 25,061 | $ 13,361 | $ 47,785 | $ 22,588 |
| | | | | |
| Operating income (loss): | | | | |
| Crude oil logistics | $ 5,884 | $ 10,129 | $ 12,493 | $ 5,819 |
| Water services | 2,913 | 4,377 | 5,956 | 4,547 |
| Natural gas liquids logistics | 14,605 | 10,217 | 12,490 | 11,402 |
| Retail propane | (4,520) | (469) | (6,024) | (6,640) |
| Corporate and other | (8,937) | (5,669) | (22,312) | (11,617) |
| Total operating income | $ 9,945 | $ 18,585 | $ 2,603 | $ 3,511 |
| | | | | |
| Other items not allocated by segment: | | | | |
| Interest expense | (11,060) | (8,692) | (21,682) | (12,492) |
| Loss on early extinguishment of debt | | | | (5,769) |
| Interest income | 266 | 263 | 664 | 629 |
| Other income (expense), net | 153 | 3 | (195) | 29 |
| Income tax (expense) benefit | (236) | (77) | 170 | (536) |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Net income (loss) | $ | (932) | $ | 10,082 | $ | (18,440) | $ | (14,628) |
| | | | | | | | | |
| Additions to property, plant and equipment, including acquisitions (accrual basis): | | | | | | | | |
| Crude oil logistics | $ | 31,336 | $ | 2,836 | $ | 35,462 | $ | 28,314 |
| Water services | | 62,473 | | 4,579 | | 70,182 | | 96,357 |
| Natural gas liquids logistics | | 13,209 | | 3,333 | | 28,316 | | 5,444 |
| Retail propane | | 4,546 | | 2,536 | | 11,492 | | 57,247 |
| Other | | 217 | | 1,213 | | 846 | | 13,357 |
| Total | $ | 111,781 | $ | 14,497 | $ | 146,298 | $ | 200,719 |

| | | September 30, 2013 | | March 31, 2013 |
|---|---|---|---|---|
| | | (in thousands) | | |
| Total assets: | | | | |
| Crude oil logistics | $ | 861,277 | $ | 801,030 |
| Water services | | 872,095 | | 466,462 |
| Natural gas liquids logistics | | 758,107 | | 474,141 |
| Retail propane | | 492,218 | | 513,301 |
| Corporate | | 42,796 | | 36,413 |
| Total | $ | 3,026,493 | $ | 2,291,347 |
| | | | | |
| Long-lived assets, net: | | | | |
| Crude oil logistics | $ | 432,886 | $ | 356,750 |
| Water services | | 844,231 | | 453,986 |
| Natural gas liquids logistics | | 258,972 | | 238,192 |
| Retail propane | | 439,577 | | 441,762 |
| Corporate | | 31,030 | | 31,996 |
| Total | $ | 2,006,696 | $ | 1,522,686 |

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**Note 13 Transactions with Affiliates**

Since our business combination with SemStream on November 1, 2011, SemGroup Corporation ( SemGroup ) has held ownership interests in us and in our general partner, and has had the right to appoint two members to the Board of Directors of our general partner. Subsequent to November 1, 2011, our natural gas liquids logistics segment has sold natural gas liquids to and purchased natural gas liquids from affiliates of SemGroup. These transactions are included within revenues and cost of sales of our natural gas liquids logistics business in our consolidated statements of operations. We also made payments to SemGroup for certain administrative and operational services. These transactions are reported within operating and general and administrative expenses in our consolidated statements of operations.

Certain members of our management own interests in entities with which we have purchased products and services from and have sold products and services. The majority of these purchases represent crude oil purchases and are reported within cost of sales in our consolidated statements of operations, although approximately $3.7 million of these transactions during the six months ended September 30, 2013 represented capital expenditures and were recorded as increases to property, plant and equipment. The majority of these sales represent sales of crude oil and have been recorded within revenues in our consolidated statements of operations.

These transactions are summarized in the table below (in thousands):

| | Three Months Ended September 30, | | Six Months Ended September 30, | |
|---|---|---|---|---|
| | **2013** | **2012** | **2013** | **2012** |
| Sales to SemGroup | $ 3,780 | $ 11,598 | $ 3,780 | $ 24,280 |
| Purchases from SemGroup | 28,377 | 14,529 | 47,916 | 27,077 |
| Sales to entities affiliated with management | 58,769 | 1,137 | 109,872 | 1,326 |
| Purchases from entities affiliated with management | 48,522 | 13,895 | 56,346 | 15,651 |

Receivables from affiliates consist of the following (in thousands):

| | September 30, 2013 | March 31, 2013 |
|---|---|---|

| | | | | |
|---|---|---|---|---|
| Receivables from entities affiliated with management | $ | 969 | $ | 22,883 |
| Receivables from SemGroup | | 2,102 | | |
| | $ | 3,071 | $ | 22,883 |

Payables to related parties consist of the following (in thousands):

| | | September 30, 2013 | | March 31, 2013 |
|---|---|---|---|---|
| Payables to SemGroup | $ | 12,841 | $ | 4,601 |
| Payables to entities affiliated with management | | 5,588 | | 2,299 |
| | $ | 18,429 | $ | 6,900 |

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As described in Note 1, we completed a merger with High Sierra Energy, LP and High Sierra Energy GP, LLC in June 2012, which involved certain transactions with our general partner. We paid $91.8 million of cash, net of $5.0 million of cash acquired, and issued 18,018,468 common units to acquire High Sierra Energy, LP. We also paid $97.4 million of High Sierra Energy, LP s long-term debt and other obligations. Our general partner acquired High Sierra Energy GP, LLC by paying $50.0 million of cash and issuing equity. Our general partner then contributed its ownership interests in High Sierra Energy GP, LLC to us, in return for which we paid our general partner $50.0 million of cash and issued 2,685,042 common units to our general partner.

We completed a business combination during the three months ended September 30, 2013 with an entity owned by an employee. We paid $11.0 million of cash for this acquisition.

**Note 14 Subsequent Events**

*Senior Unsecured Notes*

On October 16, 2013, we issued $450.0 million of senior unsecured notes (the Unsecured Notes ) in a private placement exempt from registration under the Securities Act of 1933, as amended (the Securities Act ) pursuant to Rule 144A and Regulation S under the Securities Act. We received net proceeds of approximately $438.4 million, after the initial purchasers discount of $10.1 million and estimated offering costs of $1.5 million. We used the net proceeds to reduce the outstanding balance on our Revolving Credit Facility.

The Unsecured Notes mature on October 15, 2021. We have the right to redeem the Unsecured Notes prior to the maturity date, although we would be required to pay a premium for early redemption. The notes bear interest at a fixed rate of 6.875%. Interest is payable on April 15 and October 15 of each year.

The purchase agreement and the indenture governing the Unsecured Notes contain various customary representations, warranties, and additional covenants, including, without limitation, limitations on fundamental changes and limitations on indebtedness and liens. Our obligations under the purchase agreement and the indenture may be accelerated following certain events of default (subject to applicable cure periods), including, without limitation, (i) the failure to pay principal or interest when due, (ii) experiencing an event of default on certain other debt agreements, or (iii) certain events of bankruptcy or insolvency.

We also entered into a registration rights agreement whereby we have committed to exchange the Unsecured Notes for a new issue of notes registered under the Securities Act that has substantially identical terms to the Unsecured Notes on or before October 16, 2014. If we are unable to fulfill this obligation, we would be required to pay liquidated damages to the holders of the Unsecured Notes.

*Gavilon Acquisition Agreement*

On November 5, 2013, we entered into an agreement with Gavilon Energy Intermediate, LLC to acquire 100% of its equity interests in Gavilon, LLC ( Gavilon ), which is a midstream energy business with pipeline terminal and storage assets located in Oklahoma, Texas, and Louisiana. The purchase price is $890 million in cash, subject to adjustment based on a target level of working capital to be delivered by Gavilon at the closing of the transaction. The acquisition agreement contains customary representations, warranties, indemnification obligations and covenants by the parties. The acquisition is expected to close in December 2013, subject to customary closing conditions including the expiration or termination of the waiting period under the Hart-Scott-Rodino Act.

*Sale of Common Units*

On November 5, 2013, we entered into an agreement to issue and sell 8,110,848 of our common units in a private placement at a price of $29.59 per common unit for approximately $240.0 million. The agreement for the sale of the common units includes customary representations and warranties, conditions, indemnification obligations and covenants by the parties. This sale of common units is subject to customary conditions to closing, and is expected to close in December 2013, concurrent with and contingent upon the closing of the Gavilon acquisition. The agreement will require us to register these units for resale under the Securities Act of 1933 within 90 days of the closing of the sale of the units.

*Amendment to Credit Agreement*

On November 5, 2013, we entered into an amendment to our Credit Agreement. This amendment increased the capacity on the Expansion Capital Facility from $725.0 million to $785.5 million and increased the capacity on the Working Capital Facility from $325.0 million to $885.5 million. This amendment also extended the maturity date of the agreement from June 19, 2017 to November 5, 2018.

Borrowings under the Credit Agreement bear interest, at our option, at (i) an alternate base rate plus a margin or (ii) an adjusted LIBOR rate plus a margin. The applicable margin is determined based on our consolidated leverage ratio, as defined in the Credit Agreement. The amendment in November 2013 changed the margin on LIBOR rate borrowings from a range of 2.75% to 3.75% to a range of 1.50% to 2.50%. We paid fees of approximately $8.8 million to the lenders related to this amendment.

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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, 2013. 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, 2013.

### Overview

NGL Energy Partners LP ( we , us , our , or the Partnership ) is a Delaware limited partnership formed in September 2010. NGL Energy Holdings LLC serves as our general partner. At the time of formation, our operations included a wholesale natural gas liquids business and a retail propane business. We completed an initial public offering in May 2011. Subsequent to our initial public offering, we significantly expanded our operations through a number of business combinations, including the following:

- During October 2011, we completed a business combination with E. Osterman Propane, Inc., its affiliated companies and members of the Osterman family, whereby we acquired retail propane operations in the northeastern United States.

- During November 2011, we completed a business combination with SemStream, L.P. ( SemStream ), whereby we acquired SemStream s wholesale natural gas liquids supply and marketing operations and its 12 natural gas liquids terminals.

- During January 2012, we completed a business combination with seven companies associated with Pacer Propane Holding, L.P., whereby we acquired retail propane operations, primarily in the western United States.

- During February 2012, we completed a business combination with North American Propane, Inc., whereby we acquired retail propane and distillate operations in the northeastern United States.

- During the year ended March 31, 2012, we completed three additional separate business combination transactions to acquire retail propane operations.

- On June 19, 2012, we completed a business combination with High Sierra Energy, LP and High Sierra Energy GP, LLC (collectively, High Sierra ), whereby we acquired all of the ownership interests in High Sierra. High Sierra s businesses include crude oil gathering, transportation and marketing; water treatment, disposal, and transportation; and natural gas liquids transportation and marketing.

- On November 1, 2012, we completed a business combination whereby we acquired Pecos Gathering & Marketing, L.L.C. and certain of its affiliated companies (collectively, Pecos ). The business of Pecos consists primarily of crude oil purchasing and logistics operations in Texas and New Mexico.

- On December 31, 2012, we completed a business combination whereby we acquired all of the membership interests in Third Coast Towing, LLC ( Third Coast ). The business of Third Coast consists primarily of transporting crude oil via barge.

- During the year ended March 31, 2013, we completed six additional separate business combination transactions to acquire retail propane and distillate operations, primarily in the northeastern and southeastern United States.

- During the year ended March 31, 2013, we completed four additional separate acquisitions to expand the assets and operations of our crude oil logistics and water services businesses.

- During the six months ended September 30, 2013, we completed three acquisitions of retail propane and distillate businesses.

- On July 1, 2013, we completed a business combination whereby we acquired the assets of Crescent Terminals, LLC and the ownership interests in Cierra Marine, LP and its affiliated companies (collectively, Crescent ), whereby we acquired four tow boats, seven crude oil barges, and one crude oil terminal in South Texas.

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- On July 2, 2013, we completed a business combination with High Roller Wells Big Lake SWD No. 1, Ltd. ( Big Lake ), whereby we acquired a water disposal facility in West Texas. We also entered into a development agreement that provides us the option to purchase water disposal facilities that may be developed in the future.

- On August 2, 2013, we completed a business combination whereby we acquired seven entities affiliated with Oilfield Water Lines LP (collectively, OWL ). The businesses of OWL include water disposal operations and a water transportation business in Texas.

- On September 1, 2013, we completed a business combination whereby we acquired a crude oil marketing business in Oklahoma and Texas.

- On September 3, 2013, we completed a business combination with Coastal Plains Disposal #1, LLC ( Coastal ), in which we acquired the ownership interests in a water disposal facility in Texas.

As of September 30, 2013, our businesses include:

- A crude oil logistics business, the assets of which include crude oil terminals, pipeline injection stations, a fleet of trucks, a fleet of leased rail cars, and a fleet of barges and tow boats. Our crude oil logistics business purchases crude oil from producers and transports it for resale at pipeline injection points, storage terminals, barge loading facilities, rail facilities, refineries, and other trade hubs. The operations of our crude oil logistics segment began with our June 2012 merger with High Sierra.

- A water services business, the assets of which include water treatment and disposal facilities, a fleet of water trucks, and frac tanks. Our water services business generates revenues from the gathering, transportation, treatment, and disposal of wastewater generated from oil and natural gas production operations, and from the sale of recycled water and recovered hydrocarbons. The operations of our water services segment began with our June 2012 merger with High Sierra.

- Our natural gas liquids logistics business, which supplies natural gas liquids to retailers, wholesalers, and refiners throughout the United States and in Canada, and which provides natural gas liquids terminaling services through its 17 terminals throughout the United States and rail car transportation services through its fleet of owned and predominantly leased rail cars. Our natural gas liquids logistics segment purchases propane, butane, and other natural gas liquids from refiners, processing plants, producers, and other parties, and sells the product to retailers, refiners, and other participants in the wholesale markets.

- Our retail propane business, which sells propane, distillates, and equipment and supplies to end users consisting of residential, agricultural, commercial, and industrial customers and to certain re-sellers in more than 20 states.

***Crude Oil Logistics***

Our crude oil transportation and marketing business purchases crude oil from producers and transports it for resale at pipeline injection points, storage terminals, barge loading facilities, rail facilities, refineries, and other trade hubs. We attempt to reduce our exposure to price fluctuations by using back-to-back contractual agreements whenever possible. In addition, we enter into forward contracts, financial swaps, and commodity spread trades as economic hedges of our physical forward sales and purchase contracts with our customers and suppliers.

Most of our contracts to purchase or sell crude oil are at floating prices that are indexed to published rates in active markets, such as Cushing, Oklahoma. We seek to manage price risk by entering into purchase and sale contracts of similar volumes based on similar indexes and by entering into financial derivatives. We utilize our transportation assets to move crude oil from the well head to the highest value market. The spread between crude oil prices in different markets can fluctuate widely, which may expand or limit our opportunity to generate margins by transporting crude oil to different markets. We also seek to maximize margins by blending crude oil of varying properties.

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The range of high and low spot prices per barrel of NYMEX West Texas Intermediate Crude Oil at Cushing, Oklahoma for the period indicated and the prices as of period end are as follows:

| | Spot Price Per Barrel | | |
|---|---|---|---|
| | Low | High | At Period End |
| **For the Three Months Ended:** | | | |
| September 30, 2013 | $ 97.99 | $ 110.53 | $ 102.33 |
| September 30, 2012 | 83.75 | 99.00 | 92.19 |
| | | | |
| **For the Six Months Ended:** | | | |
| September 30, 2013 | $ 86.68 | $ 110.53 | $ 102.33 |
| September 30, 2012 | 77.69 | 106.16 | 92.19 |

We believe volatility in commodity prices will continue, and our ability to adjust to and manage this volatility may impact our financial results.

***Water Services***

Our water services business generates revenues from the gathering, transportation, treatment, and disposal of wastewater generated from oil and natural gas production operations, and from the sale of recycled water and recovered hydrocarbons. Our water processing facilities are strategically located near areas of high crude oil and natural gas production. A significant factor affecting the profitability of our water services segment is the extent of exploration and production in the areas near our facilities, which is based upon producers expectations about the profitability of drilling new wells. The primary customers of our facility in Wyoming have committed to deliver a specified minimum volume of water to our facility under long-term contracts. The primary customers of our facilities in Colorado have committed to deliver to our facilities all wastewater produced at wells in a designated area. Most of the customers of our facilities in Texas are not under volume commitments, other than one customer that has committed to deliver 50,000 barrels per day to one of our facilities.

***Natural Gas Liquids Logistics***

Our natural gas liquids logistics segment purchases propane, butane, and other natural gas liquids from refiners, processing plants, producers, and other parties, and sells the product to retailers, refiners, and other participants in the wholesale markets. Our natural gas liquids logistics segment owns 17 terminals and operates a fleet of owned and leased rail cars and leases underground storage capacity. We attempt to reduce our exposure to the impact of price fluctuations by using back-to-back contractual agreements and pre-sale agreements that essentially allow us to lock in a margin on a percentage of our winter volumes. We also attempt to reduce our exposure to the impact of price fluctuations by entering into swap agreements whereby we agree to pay a floating rate and receive a fixed rate on a specified notional amount of product. We enter into these agreements as economic hedges against the potential decline in the value of a portion of our inventory.

Our wholesale business is a cost-plus business that is affected both by price fluctuations and volume variations. We establish our selling price based on a pass-through of our product supply, transportation, handling, storage and capital costs plus an acceptable 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.

Weather conditions have a significant impact on the demand for propane and butane, and sales volumes and prices are typically higher during the colder months of the year. Consequently, our revenues, operating profits, and operating cash flows are typically lower in the first and second quarters of each fiscal year.

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At Conway, Kansas and Mt. Belvieu, Texas, two 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:

| | Conway, Kansas | | | Mt. Belvieu, Texas | | |
|---|---|---|---|---|---|---|
| | Spot Price Per Gallon | | Spot Price Per Gallon | Spot Price Per Gallon | | Spot Price Per Gallon |
| | Low | High | At Period End | Low | High | At Period End |
| **For the Three Months Ended:** | | | | | | |
| September 30, 2013 | $ 0.81 | $ 1.16 | $ 1.01 | $ 0.86 | $ 1.19 | $ 1.05 |
| September 30, 2012 | 0.51 | 0.88 | 0.79 | 0.79 | 0.99 | 0.92 |
| **For the Six Months Ended:** | | | | | | |
| September 30, 2013 | $ 0.77 | $ 1.16 | $ 1.01 | $ 0.81 | $ 1.19 | $ 1.05 |
| September 30, 2012 | 0.50 | 0.96 | 0.79 | 0.71 | 1.22 | 0.92 |

The range of high and low spot butane prices per gallon at Mt. Belvieu, Texas are shown below for the periods indicated:

| | Spot Price Per Gallon | | |
|---|---|---|---|
| | Low | High | At Period End |
| **For the Three Months Ended:** | | | |
| September 30, 2013 | $ 1.19 | $ 1.44 | $ 1.38 |
| September 30, 2012 | 1.23 | 1.59 | 1.44 |
| **For the Six Months Ended:** | | | |
| September 30, 2013 | $ 1.08 | $ 1.44 | $ 1.38 |
| September 30, 2012 | 1.14 | 1.93 | 1.44 |

We believe volatility in commodity prices will continue, and our ability to adjust to and manage this volatility may impact our financial results.

***Retail Propane***

Our retail propane segment sells propane, distillates, and equipment and supplies to residential, agricultural, commercial, and industrial end-users. Our retail propane segment purchases the majority of its propane from our natural gas liquids logistics segment. Our retail propane segment generates margins based on the difference between the wholesale cost of product and the selling price of the product in the retail markets. These margins fluctuate over time due to supply and demand conditions. Weather conditions have a significant impact on our sales volumes and prices, as a significant portion of our sales are to residential customers who purchase propane and distillates for home heating purposes.

A significant factor affecting the profitability of our retail propane segment is our ability to maintain our realized product margin on a cents per gallon basis. Product margin is the differential between our sales prices and our total product costs, including transportation and storage.

Historically, we have been successful in passing on price increases to our customers. We monitor propane and distillate 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.

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. In periods of decreasing costs, we have typically experienced an increase in our product margin. The retail propane business is weather-sensitive and subject to seasonal volume variations due to propane s primary use as a heating source in residential and commercial buildings and for agricultural purposesApproximately 70% of our retail volume is sold during the peak heating season from October through March. Consequently, our revenues, operating profits, and operating cash flows are typically lower in the first and second quarters of each fiscal year.

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**Recent Developments**

*Senior Unsecured Notes*

On October 16, 2013, we issued $450.0 million of senior unsecured notes (the Unsecured Notes ) in a private placement exempt from registration under the Securities Act of 1933, as amended (the Securities Act ) pursuant to Rule 144A and Regulation S under the Securities Act. We received net proceeds of approximately $438.4 million, after the initial purchasers discount of $10.1 million and estimated offering costs of $1.5 million. We used the net proceeds to reduce the outstanding balance on our Revolving Credit Facility.

The Unsecured Notes mature on October 15, 2021. We have the right to redeem the Unsecured Notes prior to the maturity date, although we would be required to pay a premium for early redemption. The notes bear interest at a fixed rate of 6.875%. Interest is payable on April 15 and October 15 of each year.

The purchase agreement and the indenture governing the Unsecured Notes contain various customary representations, warranties, and additional covenants, including, without limitation, limitations on fundamental changes and limitations on indebtedness and liens. Our obligations under the purchase agreement and the indenture may be accelerated following certain events of default (subject to applicable cure periods), including, without limitation, (i) the failure to pay principal or interest when due, (ii) experiencing an event of default on certain other debt agreements, or (iii) certain events of bankruptcy or insolvency.

We also entered into a registration rights agreement whereby we have committed to exchange the Unsecured Notes for a new issue of notes registered under the Securities Act that has substantially identical terms to the Unsecured Notes on or before October 16, 2014. If we are unable to fulfill this obligation, we would be required to pay liquidated damages to the holders of the Unsecured Notes.

*Gavilon Acquisition Agreement*

On November 5, 2013, we entered into an agreement with Gavilon Energy Intermediate, LLC to acquire 100% of its equity interests in Gavilon, LLC ( Gavilon ), which is a midstream energy business with pipeline terminal and storage assets located in Oklahoma, Texas, and Louisiana. The purchase price is $890 million in cash, subject to adjustment based on a target level of working capital to be delivered by Gavilon at the closing of the transaction. The acquisition agreement contains customary representations, warranties, indemnification obligations and covenants by the parties. The acquisition is expected to close in December 2013, subject to customary closing conditions including the expiration or termination of the waiting period under the Hart-Scott-Rodino Act.

*Sale of Common Units*

On November 5, 2013, we entered into an agreement to issue and sell 8,110,848 of our common units in a private placement at a price of $29.59 per common unit for approximately $240.0 million. The agreement for the sale of the common units includes customary representations and warranties, conditions, indemnification obligations and covenants by the parties. This sale of common units is subject to customary conditions to closing, and is expected to close in December 2013, concurrent with and contingent upon the closing of the Gavilon acquisition. The agreement will require us to register these units for resale under the Securities Act of 1933 within 90 days of the closing of the sale of the units.

*Amendment to Credit Agreement*

On November 5, 2013, we entered into an amendment to our Credit Agreement. This amendment increased the capacity on the Expansion Capital Facility from $725.0 million to $785.5 million and increased the capacity on the Working Capital Facility from $325.0 million to $885.5 million. This amendment also extended the maturity date of the agreement from June 19, 2017 to November 5, 2018.

Borrowings under the Credit Agreement bear interest, at our option, at (i) an alternate base rate plus a margin or (ii) an adjusted LIBOR rate plus a margin. The applicable margin is determined based on our consolidated leverage ratio, as defined in the Credit Agreement. The amendment in November 2013 changed the margin on LIBOR rate borrowings from a range of 2.75% to 3.75% to a range of 1.50% to 2.50%. We paid fees of approximately $8.8 million to the lenders related to this amendment.

**Summary Discussion of Operating Results for the Three Months Ended September 30, 2013**

During the three months ended September 30, 2013, we generated operating income of $9.9 million, compared to operating income of $18.6 million during the three months ended September 30, 2012.

Our crude oil logistics segment generated operating income of $5.9 million during the three months ended September 30, 2013, compared to operating income of $10.1 million during the three months ended September 30, 2012. Cost of sales was increased by $3.1 million during the three months ended September 30, 2013 due to unrealized losses on derivatives. Cost of sales was reduced by $6.7 million during the three months ended September 30, 2012 due to unrealized gains on derivatives. The impact of these unrealized gains and losses on derivatives impacted the comparability of operating income between the three months ended September 30, 2013 and the three months ended September 30, 2012 by $9.8 million. Acquisitions of business contributed to operating income during the three months ended September 30, 2013, although this benefit was partially offset by a narrowing of price differences between markets, which reduced our opportunities to generate increased margins by transporting product from lower-price to higher-price markets.

Our water services segment generated operating income of $2.9 million during the three months ended September 30, 2013, compared to operating income of $4.4 million during the three months ended September 30, 2012. The decrease in operating income was due primarily to an increase in depreciation and amortization expense, partially offset by operating income generated by water services businesses we acquired subsequent to our merger with High Sierra.

Our natural gas liquids logistics segment generated operating income of $14.6 million during the three months ended September 30, 2013, compared to operating income of $10.2 million during the three months ended September 30, 2012. Market demand was greater during the three months ended September 30, 2013 than during the three months ended September 30, 2012, which resulted in higher sales volumes. Volumes also improved due to the expansion of our sales staff. In addition, during the year ended March 31, 2013, we refurbished two terminals that we acquired in February 2012, which enabled us to expand our wholesale operations from these terminals. Operating income during the three months ended September 30, 2013 also benefitted from $3.3 million of unrealized gains on derivatives, compared to $1.7 million of

unrealized gains on derivatives during the three months ended September 30, 2012.

Our retail propane segment generated an operating loss of $4.5 million during the three months ended September 30, 2013, compared to an operating loss of $0.5 million during the three months ended September 30, 2012. Due to the seasonal nature of demand for propane and distillates, sales volumes of our retail propane business are lower during the first and second quarters of the fiscal year than during the third and fourth quarters of the fiscal year. Sales volumes and product margins during the three months ended September 30, 2013 were similar to volumes and product margins during the three months ended September 30, 2012, except that cost of sales during the three months ended September 30, 2012 were reduced by $1.8 million of unrealized gains on derivatives. These derivatives were entered into as hedges against potential increases in the cost of distillates. During the three months ended September 30, 2013, we have primarily used physical contracts accounted for as normal purchases, rather than financial derivatives, to hedge against potential increases in the cost of distillates. Depreciation and amortization expense was higher during the three months ended September 30, 2013 than during the three months ended September 30, 2012.

We incurred interest expense of $11.1 million during the three months ended September 30, 2013. This was higher than the interest expense of $8.7 million during the three months ended September 30, 2012, due primarily to borrowings to finance acquisitions.

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**Consolidated Results of Operations**

The following table summarizes our historical unaudited consolidated statements of operations for the three months and six months ended September 30, 2013 and 2012.

| | Three Months Ended September 30, | | Six Months Ended September 30, | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| | (in thousands) | | | |
| Revenues | $ 1,593,937 | $ 1,135,510 | $ 2,979,894 | $ 1,461,946 |
| Cost of sales | 1,488,850 | 1,053,690 | 2,791,926 | 1,352,675 |
| Operating and general and administrative expenses | 70,081 | 49,874 | 137,580 | 83,172 |
| Depreciation and amortization | 25,061 | 13,361 | 47,785 | 22,588 |
| Operating income | 9,945 | 18,585 | 2,603 | 3,511 |
| Interest expense | (11,060) | (8,692) | (21,682) | (12,492) |
| Loss on early extinguishment of debt | | | | (5,769) |
| Interest and other income, net | 419 | 266 | 469 | 658 |
| Income (loss) before income taxes | (696) | 10,159 | (18,610) | (14,092) |
| Income tax (provision) benefit | (236) | (77) | 170 | (536) |
| Net income (loss) | (932) | 10,082 | (18,440) | (14,628) |
| Net income allocated to general partner | (2,451) | (694) | (4,139) | (789) |
| Net (income) loss attributable to noncontrolling interests | (9) | (9) | (134) | 51 |
| Net income (loss) attributable to parent equity allocated to limited partners | $ (3,392) | $ 9,379 | $ (22,713) | $ (15,366) |

See the detailed discussion of revenues, cost of sales, operating expenses, general and administrative expenses, depreciation and amortization and operating income by operating segment below. The business combinations described above had a significant impact on the comparability of our results of operations for the three months ended September 30, 2013 and 2012.

***Interest Expense***

The largest component of interest expense during the six months ended September 30, 2013 and 2012 was interest on revolving credit facilities and on senior notes that we issued in June 2012. See Note 7 to our consolidated financial statements included elsewhere in this Quarterly Report for additional information on our long-term debt. The change in interest expense during the periods presented is due primarily to fluctuations in the average outstanding debt balance, as summarized below:

| | Average Debt Balance Outstanding - Revolving Facilities (in thousands) | Average Interest Rate - Revolving Facilities | Average Debt Balance Outstanding - Senior Notes (in thousands) | Interest Rate - Senior Notes |
|---|---|---|---|---|
| **Three Months Ended September 30,** | | | | |

| | | | | | |
|---|---|---|---|---|---|
| 2013 | $ | 572,353 | 3.63% $ | 250,000 | 6.65% |
| 2012 | | 366,283 | 3.46% | 250,000 | 6.65% |
| **Six Months Ended September 30,** | | | | | |
| 2013 | $ | 521,202 | 3.65% $ | 250,000 | 6.65% |
| 2012 | | 320,272 | 3.61% | 142,077 | 6.65% |

Interest expense also includes amortization of debt issuance costs, which represented $1.1 million of expense during the three months ended September 30, 2013 and $0.8 million of expense during the three months ended September 30, 2012. Debt issuance costs represented $2.5 million of expense during the six months ended September 30, 2013 and $1.3 million of expense during the six

months ended September 30, 2012. Interest expense also includes letter of credit fees, interest on equipment financing notes, and accretion of interest on non-interest bearing debt obligations assumed in business combinations.

On June 19, 2012, we retired our previous revolving credit facility. Upon retirement of this facility, we wrote off the portion of the debt issuance cost asset that had not yet been amortized. This expense is reported as Loss on early extinguishment of debt in our consolidated statement of operations for the six months ended September 30, 2012.

The increased level of debt outstanding during the three months and six months ended September 30, 2013 is due primarily to borrowings to finance acquisitions.

***Income Tax Provision***

We believe that we qualify as a partnership for income tax purposes. As such, we generally do not pay U.S. federal income tax. Rather, each owner reports his or her share of our income or loss on his or her individual tax return.

We have two taxable corporate subsidiaries in the United States and three taxable corporate subsidiaries in Canada. The income tax provision reported in our consolidated statements of operations relates primarily to these subsidiaries.

See Note 8 to our consolidated financial statements included elsewhere in this annual report for additional description of income tax provisions.

***Noncontrolling Interests***

As of September 30, 2013, we have three consolidated subsidiaries in which outside parties own interests. Our ownership interests in these subsidiaries range from 60% to 80%. The noncontrolling interest shown in our consolidated statements of operations represents the other owners share of the net income of these entities.

***Non-GAAP Financial Measures***

The following table reconciles net loss attributable 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, 2013 | Three Months Ended September 30, 2012 | Six Months Ended September 30, 2013 | Six Months Ended September 30, 2012 |
|---|---|---|---|---|
| | (in thousands) | | | |
| EBITDA: | | | | |
| Net income (loss) attributable to parent equity | $ (941) | $ 10,073 | $ (18,574) | $ (14,577) |
| Provision (benefit) for income taxes | 236 | 77 | (170) | 536 |
| Interest expense | 11,060 | 8,692 | 21,682 | 12,492 |
| Loss on early extinguishment of debt | | | | 5,769 |
| Depreciation and amortization expense | 25,753 | 14,699 | 48,948 | 24,113 |
| EBITDA | $ 36,108 | $ 33,541 | $ 51,886 | $ 28,333 |
| Unrealized (gain) loss on derivative contracts | 167 | (9,476) | 3,745 | (11,405) |
| Loss (gain) on disposal of assets | 1,790 | (30) | 2,163 | (23) |
| Share-based compensation expense | 3,217 | 2,302 | 10,292 | 2,957 |
| Adjusted EBITDA | $ 41,282 | $ 26,337 | $ 68,086 | $ 19,862 |

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

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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.

**Segment Operating Results for the Three Months Ended September 30, 2013 and 2012**

***Items Impacting the Comparability of Our Financial Results***

Our results of operations for the three months ended September 30, 2013 may not be comparable to our results of operations for the three months ended September 30, 2012, due to the business combinations described above. The results of operations of our natural gas liquids businesses are impacted by seasonality, primarily due to the increase in volumes sold by our retail and wholesale natural gas liquids businesses during the peak heating season of October through March. In addition, product price fluctuations can have a significant impact on our sales volumes. For these and other reasons, our results of operations for the three months ended September 30, 2013 are not necessarily indicative of the results to be expected for the full fiscal year.

***Volumes Sold or Delivered***

The following table summarizes the volume of product sold and wastewater delivered for the three months ended September 30, 2013 and 2012. Volumes shown in the table below for our natural gas liquids logistics segment include sales to our retail segment.

| Segment | Three Months Ended September 30, 2013 | 2012 | Change |
|---|---|---|---|
| | | (in thousands) | |
| Crude oil logistics | | | |
| Crude oil sold (barrels) | 9,280 | 7,479 | 1,801 |
| | | | |
| Water services | | | |
| Water delivered (barrels) | 16,459 | 6,036 | 10,423 |
| | | | |
| Natural gas liquids logistics | | | |
| Propane sold (gallons) | 183,415 | 137,840 | 45,575 |
| Other natural gas liquids sold (gallons) | 294,809 | 186,795 | 108,014 |
| | | | |
| Retail propane | | | |
| Propane sold (gallons) | 20,599 | 20,057 | 542 |
| Distillates sold (gallons) | 3,072 | 3,024 | 48 |

Volumes sold by our crude oil logistics and water services segments were higher during the three months ended September 30, 2013 than during the three months ended September 30, 2012, due primarily to the expansion of our business through acquisitions.

Volumes sold by our natural gas liquids logistics segment were higher during the three months ended September 30, 2013 than during the three months ended September 30, 2012, due to several factors. Market demand for propane was higher, due in part to colder weather conditions. Market demand for butane to be used in gasoline blending operations was also higher. Volumes also increased due to the expansion of our sales staff. In addition, during the year ended March 31, 2013, we refurbished two terminals that we acquired in February 2012, which enabled us to expand our wholesale operations from these terminals.

Volumes sold by our retail propane segment during the three months ended September 30, 2013 were similar to volumes sold during the three months ended September 30, 2012.

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***Operating Income (Loss) by Segment***

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

| Segment | Three Months Ended September 30, 2013 | 2012 | Change |
|---|---|---|---|
| | | (in thousands) | |
| Crude oil logistics | $ 5,884 | $ 10,129 | $ (4,245) |
| Water services | 2,913 | 4,377 | (1,464) |
| Natural gas liquids logistics | 14,605 | 10,217 | 4,388 |
| Retail propane | (4,520) | (469) | (4,051) |
| Corporate and other | (8,937) | (5,669) | (3,268) |
| Operating income | $ 9,945 | $ 18,585 | $ (8,640) |

The operating loss within corporate and other for the three months ended September 30, 2013 includes approximately $3.2 million of expense related to equity-based compensation, approximately $0.8 million of expenses related to acquisitions, and approximately $4.7 million of other corporate expenses.

The operating loss within corporate and other for the three months ended September 30, 2012 includes approximately $2.3 million of expense related to equity-based compensation, approximately $0.6 million of expenses related to acquisitions, and approximately $3.2 million of other corporate expenses.

The increase in equity-based compensation expense is due in part to the fact that more awards were outstanding during the three months ended September 30, 2013 than during the three months ended September 30, 2012. The increase in expense is also due to the fact that the expense is recorded over the vesting period of the awards, and is adjusted based on the value of the common units at the end of the reporting period. The value of the common units was higher at September 30, 2013 than at September 30, 2012.

The decrease in acquisition-related expenses is due primarily to the fact that $3.5 million of expense was recorded during the three months ended September 30, 2012 related to the merger with High Sierra.

The increase in other corporate expenses is due primarily to increases in compensation expense, due to the addition of new corporate employees to provide general and administrative services in support of the growth of our business.

The operations of our compressor leasing business, which was acquired in our merger with High Sierra, are also included within corporate and other.

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***Crude Oil Logistics***

The following table summarizes the operating results of our crude oil logistics segment for the three months ended September 30, 2013 and 2012 (amounts in thousands).

| | Three Months Ended September 30, | | |
|---|---|---|---|
| | **2013** | **2012** | **Change** |
| Revenues: | | | |
| Crude oil sales | $ 1,013,061 | $ 712,119 | $ 300,942 |
| Other revenues | 9,794 | 2,214 | 7,580 |
| Total revenues(1) | 1,022,855 | 714,333 | 308,522 |
| Expenses: | | | |
| Cost of sales | 1,000,982 | 696,999 | 303,983 |
| Operating expenses | 11,760 | 4,816 | 6,944 |
| General and administrative expenses | 899 | 709 | 190 |
| Depreciation and amortization expense | 3,330 | 1,680 | 1,650 |
| Total expenses | 1,016,971 | 704,204 | 312,767 |
| | | | |
| Segment operating income | $ 5,884 | $ 10,129 | $ (4,245) |

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(1) Revenues include $8.8 million of intersegment sales during the three months ended September 30, 2013 and $3.3 million of intersegment sales during the three months ended September 30, 2012 that are eliminated in our consolidated statement of operations.

*Revenues.* We generated revenue of $1.0 billion from crude oil sales during the three months ended September 30, 2013, selling 9.3 million barrels at an average price of $109.17 per barrel. During the three months ended September 30, 2012, we generated revenue of $712.2 million from crude oil sales, selling 7.5 million barrels at an average price of $95.22 per barrel. The increase in volume during the three months ended September 30, 2013 compared to the three months ended September 30, 2012 was due primarily to acquisitions of crude oil logistics businesses, including Pecos and Third Coast, among others.

Other revenues of our crude oil logistics segment were $9.8 million during the three months ended September 30, 2013, compared to other revenues of $2.2 million during the three months ended September 30, 2012, due primarily to acquisitions of crude oil logistics businesses, including Pecos and Third Coast.

*Cost of Sales.* Our cost of crude oil sold was $1.0 billion during the three months ended September 30, 2013. We sold 9.3 million barrels at an average cost of $107.86 per barrel. Our cost of sales during the three months ended September 30, 2013 was increased by $3.1 million of unrealized losses and $1.7 million of realized losses on derivatives. During the three months ended September 30, 2012, our cost of crude oil sold was $697.0 million. We sold 7.5 million barrels at an average cost of $93.19 per barrel. Our cost of sales during the three months ended September 30, 2012 was increased by $9.9 million of realized losses on derivatives, which was partially offset by $6.7 million of unrealized gains on derivatives.

*Operating Expenses*. Our crude oil logistics segment generated $11.8 million of operating expenses during the three months ended September 30, 2013, compared to $4.8 million of operating expenses during the three months ended September 30, 2012. This increase was due primarily to the expansion of operations resulting from acquisitions, including Pecos and Third Coast.

*General and Administrative Expenses*. Our crude oil logistics segment generated $0.9 million of general and administrative expenses during the three months ended September 30, 2013, compared to $0.7 million of general and administrative expenses during the three months ended September 30, 2012.

*Depreciation and Amortization Expense.* Our crude oil logistics segment generated depreciation and amortization expense of $3.3 million during the three months ended September 30, 2013, compared to depreciation and amortization expense of $1.7 million during the three months ended September 30, 2012. This increase was due primarily to the expansion of operations resulting from acquisitions.

*Operating Income*. Our crude oil logistics segment generated operating income of $5.9 million during the three months ended September 30, 2013, compared to operating income of $10.1 million during the three months ended September 30, 2012. Cost of sales was increased by $3.1 million during the three months ended September 30, 2013 due to unrealized losses on derivatives. Cost of sales was decreased by $6.7 million during the three months ended September 30, 2012 due to unrealized gains on derivatives. The impact of these unrealized gains and losses on derivatives impacted the comparability of operating income between the three months ended September 30, 2013 and the three months ended September 30, 2012 by $9.8 million. Acquisitions of businesses contributed to operating income during the three months ended September 30, 2013, although this benefit was partially offset by a narrowing of price differences between markets, which reduced our opportunities to generate increased margins by transporting product from lower-price to higher-price markets.

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***Water Services***

The following table summarizes the operating results of our water services segment for the three months ended September 30, 2013 and 2012 (amounts in thousands).

| | Three Months Ended September 30, | | Change | |
|---|---|---|---|---|
| | 2013 | 2012 | Acquisitions (1) | Other |
| Revenues: | | | | |
| Water treatment and disposal | $ 28,823 | $ 12,724 | $ 16,498 | $ (399) |
| Water transportation | 5,367 | 3,086 | 3,873 | (1,592) |
| Total revenues | 34,190 | 15,810 | 20,371 | (1,991) |
| Expenses: | | | | |
| Cost of sales | 3,782 | 2,054 | 2,419 | (691) |
| Operating expenses | 15,003 | 6,154 | 10,503 | |