

Targa Resources Corp.
Form 10-Q
August 03, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2016

Or

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

For the transition period from _____ to _____

Commission File Number: 001-34991

TARGA RESOURCES CORP.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization) 20-3701075
(I.R.S. Employer Identification No.)

1000 Louisiana St, Suite 4300, Houston, Texas
(Address of principal executive offices) 77002
(Zip Code)
(713) 584-1000

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T

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(§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

As of July 29, 2016, there were 166,630,466 shares of the registrant’s common stock, \$0.001 par value, outstanding.

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CAUTIONARY STATEMENT ABOUT FORWARD-LOOKING STATEMENTS

Targa Resources Corp.'s (together with its subsidiaries, including Targa Resources Partners LP ("the Partnership" or "TRP"), "we," "us," "Targa," "TRC," or the "Company") reports, filings and other public announcements may from time to time contain statements that do not directly or exclusively relate to historical facts. Such statements are "forward-looking statements." You can typically identify forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, by the use of forward-looking statements, such as "may," "could," "project," "believe," "anticipate," "expect," "estimate," "potential," "plan" and other similar words.

All statements that are not statements of historical facts, including statements regarding our future financial position, business strategy, budgets, projected costs and plans and objectives of management for future operations, are forward-looking statements.

These forward-looking statements reflect our intentions, plans, expectations, assumptions and beliefs about future events and are subject to risks, uncertainties and other factors, many of which are outside our control. Important factors that could cause actual results to differ materially from the expectations expressed or implied in the forward-looking statements include known and unknown risks. Known risks and uncertainties include, but are not limited to, the following risks and uncertainties:

- the timing and extent of changes in natural gas, natural gas liquids ("NGL"), crude oil and other commodity prices, interest rates and demand for our services;
- the level and success of crude oil and natural gas drilling around our assets, our success in connecting natural gas supplies to our gathering and processing systems, oil supplies to our gathering systems and NGL supplies to our logistics and marketing facilities and our success in connecting our facilities to transportation services and markets;
- our ability to access the capital markets, which will depend on general market conditions and the credit ratings for the Partnership's and our debt obligations;
- the amount of collateral required to be posted from time to time in our transactions;
- our success in risk management activities, including the use of derivative instruments to hedge commodity price risks;
- the level of creditworthiness of counterparties to various transactions with us;
- changes in laws and regulations, particularly with regard to taxes, safety and protection of the environment;
- weather and other natural phenomena;
- industry changes, including the impact of consolidations and changes in competition;
- our ability to obtain necessary licenses, permits and other approvals;
- our ability to grow through acquisitions or internal growth projects and the successful integration and future performance of such assets;
- general economic, market and business conditions; and
- the risks described in our Annual Report on Form 10-K for the year ended December 31, 2015 ("Annual Report"), this Quarterly Report on Form 10-Q for the quarter ended June 30, 2016 (the "Quarterly Report") and our reports and registration statements filed from time to time with the United States Securities and Exchange Commission ("SEC").

Although we believe that the assumptions underlying our forward-looking statements are reasonable, any of the assumptions could be inaccurate, and, therefore, we cannot assure you that the forward-looking statements included in this Quarterly Report will prove to be accurate. Some of these and other risks and uncertainties that could cause actual results to differ materially from such forward-looking statements are more fully described in "Part II- Other Information, Item 1A. Risk Factors." in this Quarterly Report and in our Annual Report. Except as may be required by applicable law, we undertake no obligation to publicly update or advise of any change in any forward-looking statement, whether as a result of new information, future events or otherwise.

As generally used in the energy industry and in this Quarterly Report, the identified terms have the following meanings:

Bbl	Barrels (equal to 42 U.S. gallons)
Btu	British thermal units, a measure of heating value
Bcf	Billion cubic feet
BBtu	Billion British thermal units
/d	Per day
/hr	Per hour
gal	U.S. gallons
GPM	Liquid volume equivalent expressed as gallons per 1000 cu. ft. of natural gas
LPG	Liquefied petroleum gas
MBbl	Thousand barrels
MMgal	Million U.S. gallons
MMBbl	Million barrels
MMBtu	Million British thermal units
MMcf	Million cubic feet
NGL(s)	Natural gas liquid(s)
NYMEX	New York Mercantile Exchange
GAAP	Accounting principles generally accepted in the United States of America
LIBOR	London Interbank Offered Rate
NYSE	New York Stock Exchange
Price Index Definitions	
IF-NGPL MC	Inside FERC Gas Market Report, Natural Gas Pipeline, Mid-Continent
IF-PB	Inside FERC Gas Market Report, Permian Basin
IF-WAHA	Inside FERC Gas Market Report, West Texas WAHA
NY-WTI	NYMEX, West Texas Intermediate Crude Oil
OPIS-MB	Oil Price Information Service, Mont Belvieu, Texas
NG-NYMEX	NYMEX, Natural Gas

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

TARGA RESOURCES CORP.

CONSOLIDATED BALANCE SHEETS

	June 30, 2016 (Unaudited) (In millions)	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 170.9	\$ 140.2
Trade receivables, net of allowances of \$0.1 million as of June 30, 2016 and \$0.1 million as of December 31, 2015	490.1	515.8
Inventories	111.0	141.0
Assets from risk management activities	41.4	92.2
Other current assets	43.3	30.8
Total current assets	856.7	920.0
Property, plant and equipment	12,229.4	11,935.1
Accumulated depreciation	(2,526.9)	(2,232.4)
Property, plant and equipment, net	9,702.5	9,702.7
Intangible assets, net	1,726.0	1,810.1
Goodwill, net	393.0	417.0
Long-term assets from risk management activities	13.6	34.9
Investments in unconsolidated affiliates	250.2	258.9
Other long-term assets	58.1	67.4
Total assets	\$ 13,000.1	\$ 13,211.0
LIABILITIES, SERIES A PREFERRED STOCK AND OWNERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 697.7	\$ 657.1
Liabilities from risk management activities	14.9	5.2
Accounts receivable securitization facility	225.0	219.3
Total current liabilities	937.6	881.6
Long-term debt	4,778.3	5,718.8
Long-term liabilities from risk management activities	19.7	2.4
Deferred income taxes, net	1,083.0	177.8
Other long-term liabilities	164.5	180.2
Contingencies (see Note 17)		
Series A Preferred 9.5% Stock, \$1,000 per share liquidation preference, (1,200,000 shares authorized, issued and outstanding 965,100 shares)	179.9	—

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Owners' equity:			
Targa Resources Corp. stockholders' equity:			
Common stock (\$0.001 par value, 300,000,000 shares authorized)		0.2	0.1
	Issued	Outstanding	
June 30, 2016	166,302,062	165,822,818	
December 31, 2015	56,446,573	56,020,266	
Preferred stock (\$0.001 par value, after designation of Series A Preferred Stock (above) 98,800,000 shares authorized, no shares issued and outstanding)		—	—
Additional paid-in capital		5,371.3	1,457.4
Receivables from common stock issuances		(36.0)	—
Retained earnings (deficit)		(25.9)	26.9
Accumulated other comprehensive income (loss)		(5.7)	5.7
Treasury stock, at cost (479,244 shares as of June 30, 2016 and 426,307 as of			
December 31, 2015)		(29.1)	(28.7)
Total Targa Resources Corp. stockholders' equity		5,274.8	1,461.4
Noncontrolling interests in subsidiaries		562.3	4,788.8
Total owners' equity		5,837.1	6,250.2
Total liabilities, Series A Preferred Stock and owners' equity		\$13,000.1	\$13,211.0

See notes to consolidated financial statements

TARGA RESOURCES CORP.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(Unaudited)			
	(In millions, except per share amounts)			
Revenues				
Sales of commodities	\$ 1,312.9	\$ 1,396.1	\$ 2,484.0	\$ 2,798.3
Fees from midstream services	270.7	303.3	542.0	580.8
Total revenues	1,583.6	1,699.4	3,026.0	3,379.1
Costs and expenses:				
Product purchases	1,145.2	1,228.1	2,156.2	2,486.6
Operating expenses	138.9	145.8	271.0	266.9
Depreciation and amortization expenses	186.1	163.9	379.6	282.5
General and administrative expenses	47.0	49.2	92.2	91.7
Goodwill impairment	—	—	24.0	—
Other operating (income) expense	0.1	—	1.1	0.6
Income from operations	66.3	112.4	101.9	250.8
Other income (expense):				
Interest expense, net	(71.4)	(67.6)	(124.3)	(121.7)
Equity earnings (loss)	(4.4)	(1.5)	(9.2)	0.5
Gain (loss) from financing activities	(3.3)	(3.8)	21.4	(12.9)
Other	(0.1)	(0.9)	(0.2)	(26.9)
Income (loss) before income taxes	(12.9)	38.6	(10.4)	89.8
Income tax (expense) benefit	(1.7)	(14.8)	(4.8)	(30.1)
Net income (loss)	(14.6)	23.8	(15.2)	59.7
Less: Net income attributable to noncontrolling interests	8.6	8.6	10.7	41.1
Net income (loss) attributable to Targa Resources Corp.	(23.2)	15.2	(25.9)	18.6
Dividends on Series A preferred stock	22.9	—	26.7	—
Deemed dividends on Series A preferred stock	6.5	—	6.5	—
Net income (loss) attributable to common shareholders	\$(52.6)	\$15.2	\$(59.1)	\$18.6
Net income (loss) per common share - basic	\$(0.33)	\$0.27	\$(0.44)	\$0.37
Net income (loss) per common share - diluted	\$(0.33)	\$0.27	\$(0.44)	\$0.36
Weighted average shares outstanding - basic	161.6	55.9	134.1	50.9
Weighted average shares outstanding - diluted	161.6	56.1	134.1	51.0

See notes to consolidated financial statements.

TARGA RESOURCES CORP.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Three Months Ended June 30,					
	2016			2015		
	Pre-Tax (Unaudited) (In millions)	Related Income Tax	After Tax	Pre-Tax	Related Income Tax	After Tax
Net income (loss) attributable to Targa Resources Corp.			\$ (23.2)			\$ 15.2
Other comprehensive income (loss) attributable to Targa Resources Corp.						
Commodity hedging contracts:						
Change in fair value	\$ (60.2)	\$ 22.9	(37.3)	\$ (0.5)	\$ 0.2	(0.3)
Settlements reclassified to revenues	(18.3)	6.9	(11.4)	(2.4)	0.9	(1.5)
Other comprehensive income (loss) attributable to Targa Resources Corp.	(78.5)	29.8	(48.7)	(2.9)	1.1	(1.8)
Comprehensive income attributable to						
Targa Resources Corp.			(71.9)			13.4
Net income (loss) attributable to noncontrolling interests			8.6			8.6
Other comprehensive income (loss) attributable to noncontrolling interests						
Commodity hedging contracts:						
Change in fair value	—	—	—	(3.1)	—	(3.1)
Settlements reclassified to revenues	—	—	—	(19.0)	—	(19.0)
Other comprehensive income (loss) attributable to noncontrolling interests	—	—	—	(22.1)	—	(22.1)
Comprehensive income (loss) attributable to noncontrolling interests			8.6			(13.5)
Total						
Net income (loss)			(14.6)			23.8
Other comprehensive income (loss)						
Commodity hedging contracts:						
Change in fair value	(60.2)	22.9	(37.3)	(3.6)	0.2	(3.4)
Settlements reclassified to revenues	(18.3)	6.9	(11.4)	(21.4)	0.9	(20.5)
Other comprehensive income (loss)	\$ (78.5)	\$ 29.8	(48.7)	\$ (25.0)	\$ 1.1	(23.9)
Total comprehensive income (loss)			\$ (63.3)			\$ (0.1)

See notes to consolidated financial statements.

TARGA RESOURCES CORP.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Six Months Ended June 30,					
	2016			2015		
	Pre-Tax (Unaudited) (In millions)	Related Income Tax	After Tax	Pre-Tax	Related Income Tax	After Tax
Net income (loss) attributable to Targa Resources Corp.			\$ (25.9)			\$ 18.6
Other comprehensive income (loss) attributable to Targa Resources Corp.						
Commodity hedging contracts:						
Change in fair value	\$ (77.1)	\$ 29.4	(47.7)	\$ 2.0	\$ (0.6)	1.4
Settlements reclassified to revenues	(31.3)	11.9	(19.4)	(4.1)	1.4	(2.7)
Other comprehensive income (loss) attributable to Targa Resources Corp.	(108.4)	41.3	(67.1)	(2.1)	0.8	(1.3)
Comprehensive income attributable to Targa Resources Corp.			(93.0)			17.3
Net income (loss) attributable to noncontrolling interests			10.7			41.1
Other comprehensive income (loss) attributable to noncontrolling interests						
Commodity hedging contracts:						
Change in fair value	23.6	—	23.6	25.0	—	25.0
Settlements reclassified to revenues	(11.1)	—	(11.1)	(30.8)	—	(30.8)
Other comprehensive income (loss) attributable to noncontrolling interests	12.5	—	12.5	(5.8)	—	(5.8)
Comprehensive income (loss) attributable to noncontrolling interests			23.2			35.3
Total						
Net income (loss)			(15.2)			59.7
Other comprehensive income (loss)						
Commodity hedging contracts:						
Change in fair value	(53.5)	29.4	(24.1)	27.0	(0.6)	26.4
Settlements reclassified to revenues	(42.4)	11.9	(30.5)	(34.9)	1.4	(33.5)
Other comprehensive income (loss)	\$ (95.9)	\$ 41.3	(54.6)	\$ (7.9)	\$ 0.8	(7.1)
Total comprehensive income (loss)			\$ (69.8)			\$ 52.6

See notes to consolidated financial statements.

TARGA RESOURCES CORP.

CONSOLIDATED STATEMENTS OF CHANGES IN OWNERS' EQUITY AND SERIES A PREFERRED STOCK

	Common Shares (Unaudited) (In millions, except shares in thousands)	Stock Amount Capital	Additional Paid in Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Treasury Shares Amount	Noncontrolling Interests	Total Owner's Equity	Series A Preferred Stock	
Balance, December 31, 2015	56,020	\$ 0.1	\$ 1,457.4	\$ 26.9	\$ 5.7	426	\$(28.7)	\$ 4,788.8	\$ 6,250.2	\$—
Compensation on equity grants	—	—	13.0	—	—	—	—	2.2	15.2	—
Distribution equivalent rights	—	—	(4.9)	—	—	—	—	(0.2)	(5.1)	—
Shares issued under compensation program	224	—	—	—	—	—	—	—	—	—
Shares and units tendered for tax withholding obligations	(54)	—	—	—	—	54	(0.4)	(0.1)	(0.5)	—
Proceeds from common stock issuances	5,106	—	215.1	—	—	—	—	—	215.1	—
Receivables from common stock offerings	—	—	(36.0)	—	—	—	—	—	(36.0)	—
Issuance of Series A preferred and detachable warrants	—	—	796.8	—	—	—	—	—	796.8	179.9
Series A preferred stock dividends	—	—	—	(3.8)	—	—	—	—	(3.8)	—
Series A preferred stock dividends in excess of retained earnings	—	—	(22.9)	—	—	—	—	—	(22.9)	—
	—	—	(6.5)	—	—	—	—	—	(6.5)	—

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Series A preferred stock deemed dividends										
Common stock dividends	—	—	—	(23.1)	—	—	—	—	(23.1)	—
Common stock dividends in excess of retained earnings	—	—	(174.2)	—	—	—	—	—	(174.2)	—
Distributions to noncontrolling interests	—	—	—	—	—	—	—	(151.0)	(151.0)	—
Contributions from noncontrolling interests	—	—	—	—	—	—	—	19.1	19.1	—
Acquisition of TRP noncontrolling common interests, net of acquisition costs	104,526	0.1	3,097.5	—	55.7	—	—	(4,119.7)	(966.4)	—
Other comprehensive income (loss)	—	—	—	—	(67.1)	—	—	12.5	(54.6)	—
Net income (loss)	—	—	—	(25.9)	—	—	—	10.7	(15.2)	—
Balance, June 30, 2016	165,822	\$ 0.2	\$ 5,335.3	\$ (25.9)	\$ (5.7)	480	\$(29.1)	\$ 562.3	\$ 5,837.1	\$ 179.9

TARGA RESOURCES CORP.

CONSOLIDATED STATEMENTS OF CHANGES IN OWNERS' EQUITY

	Common Shares (Unaudited)	Stock Amount (In millions, except shares in thousands)	Additional Paid in Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Treasury Shares	Noncontrolling Interests	Total Owner's Equity	
Balance, December 31, 2014	42,143	\$ —	\$ 164.9	\$ 25.5	\$ 4.8	389	\$(25.4)	\$ 2,369.7	\$ 2,539.5
Compensation on equity grants	—	—	3.5	—	—	—	8.9	12.4	
Distribution equivalent rights	—	—	(0.3)	—	—	—	(0.7)	(1.0)	
Shares issued under compensation program	47	—	—	—	—	—	—	—	
Shares and units tendered for tax withholding obligations	(23)	—	—	—	—	23	(2.1)	(2.1)	(4.2)
Sale of Partnership limited partner interests	—	—	—	—	—	—	293.4	293.4	
Proceeds from common stock issuances	3,738	—	336.6	—	—	—	—	336.6	
Impact of Partnership equity transactions	—	—	56.5	—	—	—	(56.5)	—	
Dividends	—	—	—	(28.7)	—	—	—	(28.7)	
Dividends in excess of retained earnings	—	—	(50.2)	—	—	—	—	(50.2)	
Distributions to noncontrolling interests	—	—	—	—	—	—	(226.9)	(226.9)	
Contributions from noncontrolling interests	—	—	—	—	—	—	5.9	5.9	
Noncontrolling interests in acquired subsidiaries	—	—	—	—	—	—	113.4	113.4	
Common stock issued in ATLS merger	10,126	0.1	1,013.6	—	—	—	—	1,013.7	
Partnership units issued in APL merger	—	—	—	—	—	—	2,435.7	2,435.7	
Other comprehensive income (loss)	—	—	—	—	(1.3)	—	(5.8)	(7.1)	
Net income	—	—	—	18.6	—	—	41.1	59.7	

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Balance, June 30, 2015	56,031	\$ 0.1	\$ 1,524.6	\$ 15.4	\$ 3.5	412	\$(27.5)	\$ 4,976.1	\$ 6,492.2
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See notes to consolidated financial statements.

TARGA RESOURCES CORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended June 30,	
	2016	2015
	(Unaudited)	
	(In millions)	
Cash flows from operating activities		
Net income (loss)	\$(15.2)	\$59.7
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Amortization in interest expense	8.2	7.2
Compensation on equity grants	15.2	12.4
Depreciation and amortization expense	379.6	282.5
Goodwill impairment	24.0	—
Accretion of asset retirement obligations	2.3	2.7
Change in redemption value of mandatorily redeemable preferred interest	(14.6)	—
Deferred income tax expense (benefit)	4.8	18.5
Equity (earnings) loss of unconsolidated affiliates	9.2	(0.5)
Distributions of earnings received from unconsolidated affiliates	—	6.9
Risk management activities	3.2	31.5
(Gain) loss on sale or disposition of assets	0.9	(0.2)
(Gain) loss from financing activities	(21.4)	12.9
Changes in operating assets and liabilities, net of business acquisitions:		
Receivables and other assets	19.6	131.7
Inventories	12.4	57.9
Accounts payable and other liabilities	29.3	(139.0)
Net cash provided by operating activities	457.5	484.2
Cash flows from investing activities		
Outlays for property, plant and equipment	(307.7)	(436.2)
Outlays for business acquisitions, net of cash acquired	—	(1,574.4)
Return of capital from unconsolidated affiliates	3.9	0.1
Other, net	(1.4)	(1.3)
Net cash used in investing activities	(305.2)	(2,011.8)
Cash flows from financing activities		
Debt obligations:		
Proceeds from borrowings under credit facilities	1,067.0	1,824.0
Repayments of credit facilities	(1,457.0)	(588.0)
Proceeds from accounts receivable securitization facility	121.4	253.4
Repayments of accounts receivable securitization facility	(115.7)	(312.0)
Proceeds from issuance of senior notes and term loan	—	1,522.5
Open market purchases of senior notes	(534.3)	—
Repayments on senior term loan	—	(270.0)
Redemption of APL senior notes	—	(1,168.8)
Costs incurred in connection with financing arrangements	(44.3)	(37.1)
Proceeds from sale of Partnership common and preferred units	—	295.8

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Repurchase of shares and units under compensation plans	(0.4)	(4.2)
Contributions from noncontrolling interests	19.1	5.9
Distributions to noncontrolling interests	(6.3)	(5.6)
Payments of distribution equivalent rights	(0.3)	—
Proceeds from issuance of common stock	181.2	336.6
Proceeds from issuance of preferred stock and warrants	994.1	—
Distributions to Partnership unitholders	(144.7)	(221.3)
Dividends to common and preferred shareholders	(201.4)	(78.9)
Net cash provided by (used in) financing activities	(121.6)	1,552.3
Net change in cash and cash equivalents	30.7	24.7
Cash and cash equivalents, beginning of period	140.2	81.0
Cash and cash equivalents, end of period	\$170.9	\$105.7

See notes to consolidated financial statements.

TARGA RESOURCES CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The year-end condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required by GAAP. Except as noted within the context of each footnote disclosure, the dollar amounts presented in the tabular data within these footnote disclosures are stated in millions of dollars.

Note 1 — Organization and Operations

Our Organization

Targa Resources Corp. (“TRC”) is a publicly traded Delaware corporation formed in October 2005. Our common stock is listed on the New York Stock Exchange under the symbol “TRGP.” In this Quarterly Report, unless the context requires otherwise, references to “we,” “us,” “our,” “the Company” or “Targa” are intended to mean our consolidated business and operations.

Our Operations

The company is engaged in the business of:

- gathering, compressing, treating, processing and selling natural gas;
- storing, fractionating, treating, transporting and selling NGLs and NGL products, including services to LPG exporters;
 - gathering, storing and terminaling crude oil; and
- storing, terminaling and selling refined petroleum products.

Areas of gathering and processing operations include the Permian Basin in West Texas and Southeast New Mexico; the Eagle Ford Shale in South Texas; the Barnett Shale in North Texas; the Anadarko, Ardmore, and Arkoma Basins in Oklahoma and South Central Kansas; the Williston Basin in North Dakota and in the onshore and near offshore regions of the Louisiana Gulf Coast and the Gulf of Mexico. The company’s logistics and marketing assets are predominately located in Mont Belvieu and Galena Park, TX, Lake Charles, LA, and Tacoma, WA. See Note 20 – Segment Information for certain financial information for our business segments.

Note 2 — Basis of Presentation

We have prepared these unaudited consolidated financial statements in accordance with GAAP for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. While we derived the year-end balance sheet data from audited financial statements, this interim report does not include all disclosures required by GAAP for annual periods. These unaudited consolidated financial statements and other information included in this Quarterly Report should be read in conjunction with our consolidated financial statements and notes thereto included in our Annual Report and our Current Report on Form 8-K filed with the SEC on May 23, 2016.

The unaudited consolidated financial statements for the three and six months ended June 30, 2016 and 2015 include all adjustments that we believe are necessary for a fair statement of the results for interim periods. All significant intercompany balances and transactions have been eliminated in consolidation. Certain amounts in prior periods may have been reclassified to conform to the current year presentation.

Our financial results for the three and six months ended June 30, 2016 are not necessarily indicative of the results that may be expected for the full year.

One of our indirect subsidiaries is the sole general partner of Targa Resources Partners LP (“the Partnership” or “TRP”). Prior to February 17, 2016, our interests in the Partnership consisted of the following:

- a 2% general partner interest, which we hold through our 100% ownership interest in the general partner of the Partnership;
- all Incentive Distribution Rights (“IDRs”);

- 16,309,594 common units representing limited partner interests in the Partnership (“common units”), representing an 8.8% limited partnership interest; and
- a Special GP Interest representing retained tax benefits related to the contribution to the Partnership from us of the APL general partner interest acquired in the ATLS merger (as defined in Note 4 – Business Acquisitions).

On February 17, 2016, we completed the transactions contemplated by the Agreement and Plan of Merger (the “TRC/TRP Merger Agreement”), dated November 2, 2015, by and among us, the general partner of TRP, TRC and Spartan Merger Sub LLC, a subsidiary of us (“Merger Sub”) and we acquired indirectly all of the outstanding TRP common units that we and our subsidiaries did not already own. Upon the terms and conditions set forth in the TRC/TRP Merger Agreement, Merger Sub merged with and into TRP (the “TRC/TRP Merger”), with TRP continuing as the surviving entity and as a subsidiary of TRC.

At the effective time of the TRC/TRP Merger, each outstanding TRP common unit not owned by us or our subsidiaries was converted into the right to receive 0.62 shares of our common stock. We issued 104,525,775 shares of our common stock to third-party unitholders of the common units of the Partnership in exchange for all of the 168,590,009 outstanding common units of the Partnership that we previously did not own. No fractional shares were issued in the TRC/TRP Merger, and TRP common unitholders instead received cash in lieu of fractional shares. There were no changes to our other interests in the Partnership.

TRP’s 5,000,000 9.0% Series A Fixed-to-Floating Rate Cumulative Redeemable Perpetual Preferred Units (the “Preferred Units”) remain outstanding after the TRC/TRP Merger. The Preferred Units are listed on the NYSE under “NGLS PRA” and are publicly traded.

As we continue to control the Partnership, the change in our ownership interest as a result of the TRC/TRP Merger is accounted for as an equity transaction, which is reflected in our Consolidated Balance Sheet as a reduction of noncontrolling interests and a corresponding increase in common stock and additional paid in capital. The TRC/TRP Merger is a taxable exchange resulting in a book/tax difference in the basis of the underlying assets acquired (our investment in TRP). A deferred tax liability of approximately \$950 million has been recorded, computed as \$9.0 billion book basis in excess of \$6.5 billion tax basis at our statutory tax rate of 37.11%.

The equity interests in TRP (which are consolidated in our financial statements) that were owned by the public prior to February 17, 2016 are reflected within “Noncontrolling interests” in our Consolidated Balance Sheets for periods prior to the merger date. The earnings recorded by TRP that were attributed to its common units held by the public prior to February 17, 2016 are reflected within “Net income attributable to noncontrolling interests” in our Consolidated Statements of Operations for periods prior to the merger date.

Revisions of Previously Reported Activity in our Consolidated Statements of Comprehensive Income (Loss)

During the first quarter of 2016 we concluded that activity related to our commodity hedge contracts was not reported properly in our Consolidated Statements of Comprehensive Income (Loss) during 2015. The errors resulted in misstatements of the statement caption “Change in fair value” and equal offsetting misstatements of the caption “Settlements reclassified to revenues.” Related income tax effects were also misstated.

We concluded that these misstatements were not material to any of the periods affected, as reported “Total Other Comprehensive Income” is unchanged. However, we have revised previous Consolidated Statements of Comprehensive Income (Loss) reported during 2015 to properly reflect changes in fair value and settlements reclassified to revenues. There is no impact on previously reported net income, total comprehensive income, cash flows, financial position or other profitability measures.

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The following table displays the impact of these revisions to activity reported in our Consolidated Statements of Comprehensive Income (Loss) during 2015:

	Three Months Ended June 30, 2015						Six Months Ended June 30, 2015					
	As Reported			As Corrected			As Reported			As Corrected		
	Pre-Tax	Related Income After Tax	Tax	Pre-Tax	Related Income After Tax	Tax	Pre-Tax	Related Income After Tax	Tax	Pre-Tax	Related Income After Tax	Tax
Targa Resources Corp. Commodity hedging contracts:												
Change in fair value Settlements	\$ (1.1)	\$ 0.4	\$ (0.7)	\$ (0.5)	\$ 0.2	\$ (0.3)	\$ 0.6	\$ (0.2)	\$ 0.4	\$ 2.0	\$ (0.6)	\$ 1.4
reclassified to												
revenues	(1.8)	0.7	(1.1)	(2.4)	0.9	(1.5)	(2.7)	1.0	(1.7)	(4.1)	1.4	(2.7)
Other comprehensive income (loss) attributable to Targa Resources Corp.	(2.9)	1.1	(1.8)	(2.9)	1.1	(1.8)	(2.1)	0.8	(1.3)	(2.1)	0.8	(1.3)
Noncontrolling interests Commodity hedging contracts:												
Change in fair value Settlements	(7.6)	-	(7.6)	(3.1)	-	(3.1)	15.9	-	15.9	25.0	-	25.0
reclassified to												
revenues	(14.5)	-	(14.5)	(19.0)	-	(19.0)	(21.7)	-	(21.7)	(30.8)	-	(30.8)
Other comprehensive income (loss) attributable to noncontrolling interests	(22.1)	-	(22.1)	(22.1)	-	(22.1)	(5.8)	-	(5.8)	(5.8)	-	(5.8)

Total

Commodity
hedging

contracts:

Change in fair value	(8.7)	0.4	(8.3)
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