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

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 **Suite 805** **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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PART II

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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;

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- 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, 2013	Three Months Ended September 30, 2012	Six Months Ended September 30, 2013	Six Months Ended September 30, 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, 2013	Three Months Ended September 30, 2012	Six Months Ended September 30, 2013	Six Months Ended September 30, 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	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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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

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, 2013	Three Months Ended September 30, 2012	Six Months Ended September 30, 2013	Six Months Ended September 30, 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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NGL ENERGY PARTNERS LP

Notes to Unaudited Condensed Consolidated Financial Statements - Continued

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

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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