

Atlas Resource Partners, L.P.
Form 10-Q
August 10, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2015

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: 001-35317

ATLAS RESOURCE PARTNERS, L.P.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

45-3591625
(I.R.S. Employer Identification No.)
15275

Park Place Corporate Center One
1000 Commerce Drive, Suite 400

Edgar Filing: Atlas Resource Partners, L.P. - Form 10-Q

Pittsburgh, Pennsylvania

(Address of principal executive office)

(Zip code)

Registrant's telephone number, including area code: (800) 251-0171

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 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 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

The number of outstanding common limited partner units of the registrant on August 4, 2015 was 95,208,626.

ATLAS RESOURCE PARTNERS, L.P.

INDEX TO QUARTERLY REPORT

ON FORM 10-Q

TABLE OF CONTENTS

	PAGE
<u>PART I. FINANCIAL INFORMATION</u>	
Item 1. <u>Financial Statements (Unaudited)</u>	3
<u>Consolidated Balance Sheets as of June 30, 2015 and December 31, 2014</u>	3
<u>Consolidated Statements of Operations for the Three and Six Months Ended June 30, 2015 and 2014</u>	4
<u>Consolidated Statements of Comprehensive Income (Loss) for the Three and Six Months Ended June 30, 2015 and 2014</u>	5
<u>Consolidated Statement of Partners' Capital for the Six Months Ended June 30, 2015</u>	6
<u>Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2015 and 2014</u>	7
<u>Notes to Consolidated Financial Statements</u>	8
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	40
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	64
Item 4. <u>Controls and Procedures</u>	68
<u>PART II. OTHER INFORMATION</u>	
Item 6. <u>Exhibits</u>	69
<u>SIGNATURES</u>	74

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ATLAS RESOURCE PARTNERS, L.P.

CONSOLIDATED BALANCE SHEETS

(in thousands)

(Unaudited)

	June 30, 2015	December 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 607	\$ 15,247
Accounts receivable	89,169	114,520
Advances to affiliates	24,856	—
Current portion of derivative asset	114,710	144,259
Subscriptions receivable	—	32,398
Prepaid expenses and other	24,321	26,296
Total current assets	253,663	332,720
Property, plant and equipment, net	2,226,817	2,263,820
Goodwill and intangible assets, net	14,213	14,330
Long-term derivative asset	150,162	130,602
Other assets, net	56,239	50,081
	\$ 2,701,094	\$ 2,791,553
LIABILITIES AND PARTNERS' CAPITAL		
Current liabilities:		
Accounts payable	\$ 77,603	\$ 111,198
Advances from affiliates	—	2,249
Liabilities associated with drilling contracts	—	40,611
Current portion of derivative payable to Drilling Partnerships	1,441	932
Accrued well drilling and completion costs	25,565	80,404
Accrued interest	25,863	26,452
Distribution payable	13,541	20,876
Accrued liabilities	26,746	56,851
Total current liabilities	170,759	339,573
Long-term debt	1,491,612	1,394,460
Asset retirement obligations	110,775	107,950
Other long-term liabilities	3,647	2,033

Commitments and contingencies

Partners' Capital:		
General partner's interest	(15,474)	(13,697)
Preferred limited partners' interests	188,948	163,522
Class C common limited partner warrants	1,176	1,176
Common limited partners' interests	611,301	605,065
Accumulated other comprehensive income	138,350	191,471
Total partners' capital	924,301	947,537
	\$2,701,094	\$2,791,553

See accompanying notes to consolidated financial statements.

ATLAS RESOURCE PARTNERS, L.P.

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per unit data)

(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2015	2014	2015	2014
Revenues:				
Gas and oil production	\$97,260	\$108,237	\$201,509	\$208,494
Well construction and completion	16,956	16,336	40,611	65,713
Gathering and processing	2,177	3,758	4,361	8,226
Administration and oversight	547	4,166	1,806	5,895
Well services	6,102	6,365	12,726	11,844
Gain (loss) on mark-to-market derivatives	(26,944)	—	78,641	—
Other, net	27	35	60	82
Total revenues	96,125	138,897	339,714	300,254
Costs and expenses:				
Gas and oil production	43,135	43,122	88,633	81,647
Well construction and completion	14,745	14,206	35,315	57,142
Gathering and processing	2,516	4,273	4,933	8,686
Well services	2,139	2,426	4,337	4,908
General and administrative	13,287	21,315	30,422	37,770
Depreciation, depletion and amortization	42,494	59,680	85,485	111,499
Total costs and expenses	118,316	145,022	249,125	301,652
Operating income (loss)	(22,191)	(6,125)	90,589	(1,398)
Interest expense	(24,716)	(13,263)	(49,913)	(26,451)
Gain (loss) on asset sales and disposal	97	9	86	(1,594)
Net income (loss)	(46,810)	(19,379)	40,762	(29,443)
Preferred limited partner dividends	(4,234)	(4,424)	(7,887)	(8,823)
Net income (loss) attributable to common limited partners and the general partner	\$(51,044)	\$(23,803)	\$32,875	\$(38,266)
Allocation of net income (loss) attributable to common limited partners and the general partner:				
Common limited partners' interest	\$(50,023)	\$(26,203)	\$32,217	\$(42,684)
General partner's interest	(1,021)	2,400	658	4,418
	\$(51,044)	\$(23,803)	\$32,875	\$(38,266)

Edgar Filing: Atlas Resource Partners, L.P. - Form 10-Q

Net income (loss) attributable to common limited partners and the general partner)
 Net income (loss) attributable to common limited partners per unit:

Basic	\$ (0.55)	\$ (0.35)	\$ 0.36	\$ (0.63)
Diluted	\$ (0.55)	\$ (0.35)	\$ 0.36	\$ (0.63)
Weighted average common limited partner units outstanding:				
Basic	90,516	73,900	88,036	67,595
Diluted	90,516	73,900	88,616	67,595

See accompanying notes to consolidated financial statements.

ATLAS RESOURCE PARTNERS, L.P.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(in thousands)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Net income (loss)	\$(46,810)	\$(19,379)	\$40,762	\$(29,443)
Other comprehensive income (loss):				
Changes in fair value of derivative instruments accounted for as cash flow hedges	—	(28,839)	—	(65,094)
Less: reclassification adjustment for realized (gains) losses of cash flow hedges in net income (loss)	(25,778)	9,522	(53,121)	24,091
Total other comprehensive loss	(25,778)	(19,317)	(53,121)	(41,003)
Comprehensive loss attributable to common and preferred limited partners and the general partner	\$(72,588)	\$(38,696)	\$(12,359)	\$(70,446)

See accompanying notes to consolidated financial statements.

ATLAS RESOURCE PARTNERS, L.P.

CONSOLIDATED STATEMENT OF PARTNERS' CAPITAL

(in thousands, except unit data)

(Unaudited)

Interest	Preferred Partners' Interest		Limited Interest		Class D	Class E	Common Limited Partners' Interests		Class C Common Limited Partner Warrants			
	Class B	Class C	Amount	Units			Amount	Units	Amount	Units	Warrants	Amount
Amount	Units	Amount	Units	Amount	Units	Amount	Units	Amount	Units	Amount	Warrants	Amount
\$(13,697)	39,654	\$983	3,749,986	\$85,501	3,200,000	\$77,038	—	\$—	85,346,941	\$605,065	562,497	\$1,000,000
—	—	—	—	—	—	—	—	—	—	(35,404)	—	—
—	—	—	—	—	800,000	19,978	255,000	\$6,005	9,385,824	70,869	—	—
—	—	—	—	—	—	—	—	—	412,627	4,304	—	—
1,155	—	2	—	100	—	(182)	—	(173)	—	6,475	—	—
(3,590)	—	(37)	—	(4,024)	—	(4,130)	—	—	—	(71,815)	—	—
—	—	—	—	—	—	—	—	—	—	(410)	—	—
658	—	32	—	3,825	—	3,885	—	145	—	32,217	—	—
—	—	—	—	—	—	—	—	—	—	—	—	—
\$(15,474)	39,654	\$980	3,749,986	\$85,402	4,000,000	\$96,589	255,000	\$5,977	95,145,392	\$611,301	562,467	\$1,000,000

See accompanying notes to consolidated financial statements.

ATLAS RESOURCE PARTNERS, L.P.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(Unaudited)

	Six Months Ended	
	June 30, 2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$40,762	\$(29,443)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation, depletion and amortization	85,485	111,499
Unrealized gain on derivatives	(71,808)	—
(Gain) loss on asset sales and disposal	(86)	1,594
Non-cash compensation expense	4,209	4,353
Amortization of deferred financing costs	9,926	3,711
Changes in operating assets and liabilities:		
Accounts receivable, prepaid expenses and other	61,803	(4,192)
Accounts payable and accrued liabilities	(77,106)	(34,482)
Net cash provided by operating activities	53,185	53,040
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(69,491)	(94,649)
Net cash paid for acquisitions	(36,967)	(517,453)
Other	167	(148)
Net cash used in investing activities	(106,291)	(612,250)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings under credit facilities	473,500	838,000
Repayments under credit facilities	(377,000)	(676,000)
Distributions paid to unitholders	(83,596)	(105,970)
Net proceeds from long term debt	—	97,500
Net proceeds from issuance of common limited partner units	70,869	426,393
Net proceeds from issuance of preferred units	6,005	—
Arkoma transaction adjustment	(35,404)	(7,905)
Deferred financing costs, distribution equivalent rights and other	(15,908)	(10,643)
Net cash provided by financing activities	38,466	561,375
Net change in cash and cash equivalents	(14,640)	2,165
Cash and cash equivalents, beginning of year	15,247	1,828
Cash and cash equivalents, end of period	\$607	\$3,993

See accompanying notes to consolidated financial statements.

7

ATLAS RESOURCE PARTNERS, L.P.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2015

(Unaudited)

NOTE 1 – BASIS OF PRESENTATION

Atlas Resource Partners, L.P. (the “Partnership”) is a publicly traded Delaware master-limited partnership (NYSE: ARP) and an independent developer and producer of natural gas, crude oil and natural gas liquids (“NGL”) with operations in basins across the United States. The Partnership sponsors and manages tax-advantaged investment partnerships (the “Drilling Partnerships”), in which it coinvests, to finance a portion of its natural gas, crude oil and NGL production activities.

On February 27, 2015, the Partnership’s general partner, Atlas Energy Group, LLC (“Atlas Energy Group”; NYSE: ATLS) distributed 100% of its common units to existing unitholders of its then parent, Atlas Energy, L.P. (“Atlas Energy”), which was a publicly traded master-limited partnership (NYSE: ATLS) (Atlas Energy and Atlas Energy Group are collectively referred to as “ATLS”). Atlas Energy Group manages the Partnership’s operations and activities through its ownership of the Partnership’s general partner interest. Concurrent with Atlas Energy Group’s unit distribution, Atlas Energy and its midstream ownership interests merged into Targa Resources Corp. (“Targa”; NYSE: TRGP) and ceased trading. At June 30, 2015, Atlas Energy Group owned 100% of the Partnership’s general partner Class A units, all of the incentive distribution rights through which it manages and effectively controls the Partnership and an approximate 25.0% limited partner interest (20,962,485 common and 3,749,986 preferred limited partner units) in the Partnership.

In addition to its general and limited partner interest in the Partnership, ATLS also holds general and limited partner interests in Atlas Growth Partners, L.P. (“AGP”), a Delaware limited partnership and an independent developer and producer of natural gas, oil and NGLs, with operations primarily focused in the Eagle Ford Shale, and in Lightfoot Capital Partners, L.P. and Lightfoot Capital Partners GP, LLC, which incubate new MLPs and invest in existing MLPs.

The accompanying consolidated financial statements, which are unaudited except that the balance sheet at December 31, 2014 is derived from audit