Atlas Resource Partners, L.P.
Form 10-K
March 01, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2012

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	**45-3591625**
(State or other jurisdiction or incorporation or organization)	**(I.R.S. Employer Identification No.)**
Park Place Corporate Center One	
1000 Commerce Drive, Suite 400	
Pittsburgh, PA	**15275**
(Address of principal executive offices)	**Zip code**

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Units representing Limited Partnership Interests	**New York Stock Exchange**

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

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 ¨

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 x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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 definitions of large accelerated filer , accelerated filer and small reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	¨	Accelerated filer	x
Non-accelerated filer	¨	Smaller reporting company	¨

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

The aggregate market value of the voting and non-voting equity securities held by non-affiliates of the registrant, based on the closing price of the registrant s common units on the last business day of the registrant s most recently completed second quarter, June 30, 2012, was approximately $292.4 million.

The number of outstanding limited partner units of the registrant on February 25, 2013 was 47,809,707.

DOCUMENTS INCORPORATED BY REFERENCE: None

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ATLAS RESOURCE PARTNERS, L.P.

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GLOSSARY OF TERMS

Unless the context otherwise requires, references below to Atlas Resource Partners, L.P., Atlas Resource Partners, the partnership, we, us, our and our company , when used in a historical context, refer to the subsidiaries and operations that Atlas Energy, L.P. has contributed to Atlas Resource Partners in connection with the separation and distribution completed in March 2012, and, when used in the present tense or prospectively, refer to Atlas Resource Partners, L.P. and its combined subsidiaries. References below to Atlas Energy or Atlas Energy, L.P. refers to Atlas Energy, L.P. and its consolidated subsidiaries, unless the context otherwise requires.

Bbl. One stock tank barrel or 42 United States gallons liquid volume.

Bcf. One billion cubic feet.

Bcfe. One billion cubic feet equivalent, determined using a ratio of six Mcf of gas to one Bbl oil, condensate or natural gas liquids.

Bpd. Barrels per day.

Btu. One British thermal unit, which is the heat required to raise the temperature of a one-pound mass of water from 58.5 to 59.5 degrees Fahrenheit.

Condensate. A mixture of hydrocarbons that exists in the gaseous phase at original reservoir temperature and pressure, but that, when produced, is in the liquid phase at surface pressure and temperature.

Developed acreage. Acres spaced or assigned to productive wells.

Development well. A well drilled within a proved area of an oil or gas reservoir to the depth of a stratigraphic horizon known to be productive.

Dth. One dekatherm, equivalent to one million British thermal units.

Dry hole or well. A well found to be incapable of producing hydrocarbons in sufficient quantities such that proceeds from the sale of such production would exceed production expenses and taxes.

EBITDA. Net income (loss) before net interest expense, income taxes, and depreciation and amortization. EBITDA is considered to be a non-GAAP measurement.

Exploratory well. A well drilled to find a new field or to find a new reservoir in a field previously found to be productive of oil or gas in another reservoir. Generally, an exploratory well is any well that is not a development well, an extension well, a service well or a stratigraphic test well as those items are defined in this section.

FASB. Financial Accounting Standards Board.

Field. An area consisting of a single reservoir or multiple reservoirs all grouped on or related to the same individual geological structural feature and/or stratigraphic condition. There may be two or more reservoirs in a field that are separated vertically by intervening impervious strata, or laterally by local geologic barriers, or by both. Reservoirs that are associated by being in overlapping or adjacent fields may be treated as a single or common operational field. The geological terms *structural feature* and *stratigraphic condition* are intended to identify localized geological features as opposed to the broader terms of basins, trends, provinces, plays, areas-of-interest, etc.

Fractionation. The process used to separate an NGL stream into its individual components.

GAAP. Generally Accepted Accounting Principles.

Gross acres or gross wells. The total acres or wells, as the case may be, in which a working interest is owned.

MBbl. One thousand barrels of oil or other liquid hydrocarbons.

Mcf. One thousand cubic feet.

Mcfe. One thousand cubic feet equivalent, determined using the ratio of six Mcf of gas to one Bbl of oil, condensate or natural gas liquids.

Mcfd. One thousand cubic feet per day.

Mcfed. One Mcfe per day.

MMBbl. One million barrels of oil or other liquid hydrocarbons.

MMBtu. One million British thermal units.

MMcf. One million cubic feet.

MMcfe. One million cubic feet equivalent, determined using a ratio of six Mcf of gas to one Bbl of oil, condensate or natural gas liquids.

MMcfed. One MMcfe per day.

Net acres or net wells. The sum of the fractional working interests owned in gross acres or gross wells, as the case may be.

NGL. Natural gas liquids, which are the hydrocarbon liquids contained within gas.

NYMEX. The New York Mercantile Exchange.

NYSE. The New York Stock Exchange.

Oil. Crude oil and condensate.

Productive well. A well that is found to be capable of producing hydrocarbons in sufficient quantities such that proceeds from the sale of such production exceeds production expenses and taxes.

Proved developed reserves. Reserves that can be expected to be recovered through existing wells with existing equipment and operating methods or in which the cost of the required equipment is relatively minor compared to the cost of a new well; and through installed extraction equipment and infrastructure operational at the time of the reserves estimate if the extraction is by means not involving a well.

Proved reserves. Proved oil and gas reserves are those quantities of oil and gas that by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible from a given date forward, from known reservoirs, and under existing economic conditions, operating methods and government regulations prior to the time at which contracts providing the right to operate expire, unless evidence indicates that renewal is reasonably certain, regardless of whether deterministic or probabilistic methods are used for the estimation. The project to extract the hydrocarbons must have commenced or the operator must be reasonably certain that it will commence the project within a reasonable time.

Proved undeveloped drilling location. A site on which a development well can be drilled consistent with spacing rules for purposes of recovering proved undeveloped reserves.

Proved undeveloped reserves or PUDs. Reserves that are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required for recompletion. Reserves on undrilled acreage are limited to those directly offsetting development spacing areas that are reasonably certain of production when drilled, unless evidence using reliable technology exists that establishes reasonable certainty of economic producibility at greater distances. Undrilled locations can be classified as having undeveloped reserves only if a development plan has been adopted indicating that they are scheduled to be drilled within five years, unless the specific circumstances justify a longer time. Estimates for undeveloped reserves cannot be attributable to any acreage for which an application of fluid injection or other improved recovery technique is contemplated, unless such techniques have been proved effective by actual projects in the same reservoir or an analogous reservoir, or by other evidence using reliable technology establishing reasonable certainty.

PV-10. Present value of future net revenues. See the definition of standardized measure.

Recompletion. The completion for production of an existing wellbore in another formation from that which the well has been previously completed.

Reserves. Reserves are estimated remaining quantities of oil and gas and related substances anticipated to be economically producible, as of a given date, by application of development projects to known accumulations. In addition, there must exist, or there must be a reasonable expectation that there will exist, the legal right to produce or a revenue interest in the production, installed means of delivering oil and gas or related substances to market, and all permits and financing required to implement the project.

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Reservoir. A porous and permeable underground formation containing a natural accumulation of economically productive oil and/or gas that is confined by impermeable rock or water barriers and is individual and separate from other reserves.

SEC. Securities Exchange Commission.

Standardized Measure. Standardized measure, or standardized measure of discounted future net cash flows relating to proved oil and gas reserve quantities, is the present value of estimated future net revenues to be generated from the production of proved reserves, determined in accordance with the rules and regulations of the Securities and Exchange Commission (using prices and costs in effect as of the date of estimation) without giving effect to non-property related expenses such as general and administrative expenses, debt service or to depreciation, depletion and amortization and discounted using an annual discount rate of 10%. Standardized measure differs from PV-10 because standardized measure includes the effect of future income taxes.

Successful well. A well capable of producing oil and/or gas in commercial quantities.

Undeveloped acreage. Lease acreage on which wells have not been drilled or completed to a point that would permit the production of commercial quantities of oil and gas regardless of whether such acreage contains proved reserves.

Unproved reserves. Lease acreage on which wells have not been drilled and where it is either probable or possible that the acreage contains reserves.

Working interest. The operating interest that gives the owner the right to drill, produce and conduct operating activities on the property and a share of production.

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FORWARD-LOOKING STATEMENTS

The matters discussed within this report include forward-looking statements. These statements may be identified by the use of forward-looking terminology such as anticipate, believe, continue, could, estimate, expect, intend, may, might, plan, potential, predict, should, or will, or the negative thereof or other variations thereon or comparable terminology. In particular, statements about our expectations, beliefs, plans, objectives, assumptions or future events or performance contained in this report are forward-looking statements. We have based these forward-looking statements on our current expectations, assumptions, estimates and projections. While we believe these expectations, assumptions, estimates and projections are reasonable, such forward-looking statements are only predictions and involve known and unknown risks and uncertainties, many of which are beyond our control. These and other important factors may cause our actual results, performance or achievements to differ materially from any future results, performance or achievements expressed or implied by these forward-looking statements. Some of the key factors that could cause actual results to differ from our expectations include:

the demand for natural gas, oil, NGLs and condensate;

the price volatility of natural gas, oil, NGLs and condensate;

changes in the market price of our common units;

future financial and operating results;

resource potential;

realized natural gas and oil prices;

economic conditions and instability in the financial markets;

success in efficiently developing and exploiting our reserves and economically finding or acquiring additional recoverable reserves;

the accuracy of estimated natural gas and oil reserves;

the financial and accounting impact of hedging transactions;

the ability to fulfill our substantial capital investment needs;

expectations with regard to acquisition activity, or difficulties encountered in connection with acquisitions, dispositions or similar transactions;

the limited payment of dividends or distributions, or failure to declare a dividend or distribution, on outstanding common units or other equity securities;

any issuance of additional common units or other equity securities, and any resulting dilution or decline in the market price of any such securities;

restrictive covenants in indebtedness that may adversely affect operational flexibility;

potential changes in tax laws which may impair the ability to obtain capital funds through investment partnerships;

the ability to raise funds through investment or through access to the capital markets;

the ability to obtain adequate water to conduct drilling and production operations, and to dispose of the water used in and generated by these operations at a reasonable cost and within applicable environmental rules;

the introduction of Pennsylvania impact fees and severance taxes;

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changes and potential changes in the regulatory and enforcement environment in the areas in which we conduct business;

the effects of intense competition in the natural gas and oil industry;

general market, labor and economic conditions and related uncertainties;

the ability to retain certain key customers;

dependence on the gathering and transportation facilities of third parties;

the availability of drilling rigs, equipment and crews;

potential incurrence of significant costs and liabilities in the future resulting from a failure to comply with new or existing environmental regulations or an accidental release of hazardous substances into the environment;

uncertainties with respect to the success of drilling wells at identified drilling locations;

acquisitions may potentially prove to be worth less than we paid, or provide less than anticipated proved reserves;

ability to identify all risks associated with the acquisition of oil and natural gas properties, or existing wells, and the sufficiency of indemnifications we receive from sellers to protect us from such risks;

expirations of undeveloped leasehold acreage;

uncertainty regarding leasing operating expenses, general and administrative expenses and funding and development costs;

exposure to financial and other liabilities of the managing general partners of the investment partnerships;

the ability to comply with, and the potential costs of compliance with, new and existing federal, state, local and other laws and regulations applicable to our business and operations;

exposure to new and existing litigation;

the potential failure to retain certain key employees and skilled workers; and *development of alternative energy resources.*

Other factors that could cause actual results to differ from those implied by the forward-looking statements in this report are more fully described under Item 1A: Risk Factors in this report. Given these risks and uncertainties, you are cautioned not to place undue reliance on these forward-looking statements. The forward-looking statements included in this report are made only as of the date hereof. We do not undertake and specifically decline any obligation to update any such statements or to publicly announce the results of any revisions to any of these statements to reflect future events or developments.

PART I.

ITEM 1: BUSINESS

Overview

We are a publicly-traded 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. We are a leading sponsor and manager of tax-advantaged investment partnerships, in which we co-invest, to finance a portion of our natural gas and oil production activities. We believe we have established a strong track record of growing our reserves, production and cash flows through a balanced mix of natural gas and oil exploitation and development and sponsorship of investment partnerships and acquisition of oil and gas properties. Our primary business objective is to generate growing yet stable cash flows through the development and acquisition of mature, long-lived natural gas and oil properties. As of December 31, 2012, the date of our most recent reserve reports, our estimated proved reserves were 723.4 Bcfe, including the reserves net to our equity interest in our investment partnerships. Of our estimated proved reserves, approximately 56% were proved developed and approximately 79% were natural gas. For the year ended December 31, 2012, our average daily net production was approximately 77.2 MMcfe. Through December 31, 2012, we own production positions in the following areas:

- the Barnett Shale and Marble Falls play in the Fort Worth Basin in northern Texas. We have ownership interests in over 525 wells in the Barnett Shale and Marble Falls play and 569.3 Bcfe of total proved reserves with average daily production of 31.9 MMcfe for the year ended December 31, 2012;

- the Appalachia basin, including the Marcellus Shale and the Utica Shale. We have ownership interests in over 10,200 wells primarily in the Appalachian basin, including approximately 270 wells in the Marcellus Shale and 112.6 Bcfe of total proved reserves with average daily production of 35.6 MMcfe for the year ended December 31, 2012;

- the Mississippi Lime and Hunton plays in northwestern Oklahoma. We own 21.0 Bcfe of total proved reserves with average daily production of 1.9 MMcfe for the year ended December 31, 2012; and

- the Chattanooga Shale in northeastern Tennessee, the Niobrara Shale in northeastern Colorado, the New Albany Shale in southwestern Indiana, and the Antrim Shale in Michigan, in which we have an aggregate 20.5 Bcfe of total proved reserves with average daily production of 7.8 MMcfe for the year ended December 31, 2012.

We seek to create substantial value by executing our strategy of acquiring properties with stable, long-life production, relatively predictable decline curves and lower risk development opportunities. Overall, we have acquired significant net proved reserves and production through the following transactions:

- *Carrizo Barnett Shale Assets* On April 30, 2012, we acquired 277 Bcfe of proved reserves, including undeveloped drilling locations, in the core of the Barnett Shale from Carrizo Oil & Gas, Inc. (NASD: CRZO; Carrizo) for approximately $187.0 million, which was funded by $119.5 million through the private placement of 6.0 million of our common units and $67.5 million of borrowings under our revolving credit facility. The assets include 198 gross producing wells generating approximately 31 MMcfed of production at the date of acquisition on over 12,000 net acres, all of which are held by production.

- *Titan Barnett Shale Assets* On July 26, 2012, we acquired Titan Operating, L.L.C. (Titan), which owned approximately 250 Bcfe of proved reserves and associated assets in the Barnett Shale on approximately 16,000 net acres, which are 90% held by production, for approximately 3.8 million of our common units and approximately 3.8 million of our Class B convertible preferred units (which had an estimated collective value of $193.2 million based upon the closing price of our publicly-traded common units as of the acquisition closing date) and approximately $15.4 million in cash for closing adjustments. Titan s assets are located in close proximity to the assets acquired from Carrizo in the Barnett Shale. Net production from these assets at the date of acquisition was approximately 24 MMcfed, including approximately 370 Bpd of natural gas liquids. We believe there are approximately 335 potential undeveloped drilling locations on the Titan acreage.

- *DTE Fort Worth Basin Assets* On December 20, 2012, we acquired 210 Bcfe of proved reserves in the Fort Worth basin from DTE Energy Company (NYSE: DTE; DTE) for $257.4 million. The assets include 261 gross producing wells generating approximately 23 MMcfed of production at the date of acquisition on over 88,000 net acres, approximately 40% of which are held by production and approximately 33% are in continuous development. The acreage position includes approximately 75,000 net acres prospective for the oil and NGL-rich Marble Falls play, in which there are over 700 identified vertical drilling locations. We believe that there are further potential development opportunities through vertical down-spacing and horizontal drilling in the Marble Falls formation, in which it expects to commence drilling operations by early 2013. The assets acquired from DTE are in close proximity to our other assets in the Barnett Shale.

Equal Mississippi Lime Assets On April 4, 2012, we entered into an agreement with Equal Energy, Ltd. (NYSE: EQU; TSX: EQU; Equal) to acquire a 50% interest in Equal s approximately 14,500 net undeveloped acres in the core of the oil and liquids rich Mississippi Lime play in northwestern Oklahoma for approximately $18 million. On September 24, 2012, we acquired Equal s remaining 50% interest in approximately 8,500 net undeveloped acres included in the joint venture, approximately 8 MMcfed of net production in the region at the date of acquisition and substantial salt water disposal infrastructure for $41.3 million, including $1.3 million related to post-closing adjustments. Both transactions were financed through borrowings under our revolving credit facility. The transaction increased our position in the Mississippi Lime play to 19,800 net acres in Alfalfa, Grant and Garfield counties in Oklahoma.

In addition to our acquisition strategy, we have targeted certain high-returning plays, including the Marcellus Shale in northeastern Pennsylvania and the Utica Shale in eastern Ohio, for organic leasing efforts and development. In the Marcellus Shale, we have leased acreage in Lycoming County in northeast Pennsylvania, a highly desirable and productive dry gas area, where we have completed three pad sites that will each accommodate multiple horizontal wells, of which eight wells are in various stages of drilling as of December 31, 2012. We also have prospective Utica Shale acreage in Harrison, Tuscarawas, and Stark counties, Ohio, highly desirable areas which have experienced escalated permitting and drilling activity, where we have five horizontal wells in Harrison County in various stages of drilling as of December 31, 2012. We currently have interests in approximately 2,500 wells in Ohio and operate three field offices, which we intend to use to manage future Utica Shale development.

With over 1,250 attractive drilling locations at current commodity prices on approximately 144,000 undeveloped acres that we are actively developing, we believe we have significant organic growth opportunities.

We were formed in October 2011 to own and operate substantially all of the Atlas Energy E&P Operations, which were transferred to us on March 5, 2012 by Atlas Energy, L.P. (NYSE: ATLS; ATLS), a publicly-traded master limited partnership which owns 100% of our general partner Class A units and incentive distribution rights and an approximate 43% limited partner ownership interest (20,962,485 limited partner units) in us.

Our operations include three reportable operating segments: gas and oil production, well construction and completion and other partnership management (see Item 8: Financial Statements and Supplementary Data).

Competitive Strengths

We believe we are well-positioned to successfully execute our business strategy because of the following competitive strengths:

We have a high quality, long-lived reserve base. Our natural gas properties are located principally in the Barnett Shale and the Appalachian Basin, and are characterized by long-lived reserves, favorable pricing for our production and readily available transportation. Moreover, because our production in the Appalachian Basin is located near markets in the northeast United States, we believe we will generally receive a premium over quoted prices on the New York Mercantile Exchange (NYMEX) for the natural gas we produce.

We are one of the leading sponsors of tax-advantaged investment partnerships. We and our predecessor have sponsored limited and general partnerships to raise funds from investors to finance our development drilling activities since 1968, and we believe that we are one of the leading sponsors of such investment partnerships in the country. We believe that our lengthy association with many of the broker-dealers that act as placement agents for our investment partnerships provide us with a competitive advantage over entities with similar operations. We also believe that our sponsorship of investment partnerships has allowed us to generate attractive returns on drilling, operating and production activities.

Fee-based revenues from our investment partnerships and our substantially hedged production provide protection from commodity price volatility. Our investment partnerships provide us with stable, fee-based revenues which diminish the influence of commodity price fluctuations on our cash flows. In addition, because our investment partnerships reimburse us on a cost-plus basis for drilling capital expenses, we are partially protected against increases in drilling costs. Our fees for managing our investment partnerships accounted for approximately 37% of our segment margin for the year ended December 31, 2012. Additionally, our natural gas, crude oil and NGL production was hedged approximately 81% on an equivalent basis for the year ended December 31, 2012. As of December 31, 2012, we have approximately 109 Bcfe of hedge positions on our natural gas, crude oil and NGL production for 2013 through 2017.

Our partnership management business can improve the economic rates of return associated with our natural gas and oil production activities. A well drilled, net to our equity interest, in our partnership management business will provide us with an enhanced rate of return. For each well drilled in a partnership, we receive an upfront fee on the investors well construction and completion costs and a fixed administration and oversight fee. Further, we receive an incremental equity interest in each well, for which we do not make any corresponding capital contribution. Consequently, our economic interest in each well is significantly greater than our proportional contribution to the total cash costs which enhances our overall rate of return. Additionally, we receive monthly per well fees from the partnership for the life of each individual well, which also increases our rate of return.

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We have significant experience in making accretive acquisitions. Our management team has extensive experience in consummating accretive acquisitions. We believe we will be able to generate acquisition opportunities of both producing and non-producing properties through our management s extensive industry relationships. We intend to use these relationships and experience to find, evaluate and execute on acquisition opportunities.

We have significant engineering, geologic and management experience. Our technical team of geologists and engineers has extensive industry experience. We believe that we have been one of the most active drillers in our core operating areas and, as a result, that we have accumulated extensive geological and geographical knowledge about the area. We have added geologists and engineers to our technical staff that have significant experience in other productive basins within the continental United States, which will allow us to evaluate and possibly expand our core operating areas.

Business Strategy

The key elements of our business strategy are:

Expand our natural gas and oil production. We generate a significant portion of our revenue and net cash flow from natural gas and oil production. We believe our strategy of increasing our natural gas and oil production through our sponsorship of investment partnerships as well as drilling wells directly to exploit our acreage opportunities provides us with enhanced economic returns. For the five year period ended December 31, 2012, we raised over $1.2 billion from outside investors through our investment partnerships. We intend to continue to develop our inventory of proved undeveloped locations through both sponsorship of investment partnerships and direct well drilling to add value through reserve and production growth.

Expand our fee-based revenue through our sponsorship of investment partnerships. We generate substantial revenue and cash flow from fees paid by the investment partnerships to us for acting as the managing general partner. As we continue to sponsor investment partnerships, we expect that our fee revenues from our drilling and operating agreements with our investment partnerships will increase. We expect that the fee revenue we generate with respect to fees paid by the investment partnerships to us for partnership management will add stability to our revenue and cash flows. Furthermore, the carried interests and fees we earn reduce the net investment in our drilling program and therefore enhance our rates of return on investment.

Expand operations through strategic acquisitions. We continually evaluate opportunities to expand our operations through acquisitions of developed and undeveloped properties or companies that will generate attractive risk adjusted expected rates of return and increase our cash available for distribution. Our acquisitions have been characterized by long-lived production, relatively low decline rates and predictable production profiles, as well as relatively low-risk development opportunities. We will continue to seek strategic opportunities in our current areas of operation, as well as other regions of the United States.

Continue to maintain control of operations and costs. We believe it is important to be the operator of wells in which we or our investment partnerships have an interest because we believe it will allow us to achieve operating efficiencies and control costs. As operator, we are better positioned to control the timing and plans for future enhancement and exploitation efforts, costs of enhancing, drilling, completing and producing the well, and marketing negotiations for our natural gas and oil production to maximize both volumes and wellhead price. We were the operator of the vast majority of the properties in which we or our investment partnerships had a working interest at December 31, 2012.

Continue to manage our exposure to commodity price risk. To limit our exposure to changing commodity prices and enhance and stabilize our cash flow, we use financial hedges for a portion of our natural gas and oil production. We principally use fixed price swaps and collars as the mechanism for the financial hedging of our commodity prices.

Subsequent Events

Cash Distribution. On January 24, 2013, we declared a cash distribution of $0.48 per unit on our outstanding common limited partner units, representing the cash distribution for the quarter ended December 31, 2012. The $23.6 million distribution, including $0.6 million and $1.8 million to the general partner and preferred limited partners, respectively, was paid on February 14, 2013 to unitholders of record at the close of business on February 6, 2013.

Senior Notes. On January 23, 2013, we issued $275.0 million of 7.75% senior unsecured notes due on January 15, 2021 (7.75% Senior Notes). We used the net proceeds of approximately $268.3 million, net of underwriting fees and other offering costs of $6.7 million, to repay all of the indebtedness and accrued interest outstanding under our term loan credit facility and a portion of that outstanding under our revolving credit facility. Under the terms of our revolving credit facility,

the borrowing base was reduced by 15% of the 7.75% Senior Notes to $368.8 million. In connection with the retirement of our term loan credit facility and the reduction in our revolving credit facility borrowing base, we accelerated $2.2 million of amortization expense related to deferred financing costs in January 2013. Interest on the 7.75% Senior Notes is payable semi-annually on January 15 and July 15. At any time prior to January 15, 2016, the 7.75% Senior Notes are redeemable up to 35% of the outstanding principal amount with the net cash proceeds of equity offerings at the redemption price of 107.75%. The 7.75% Senior Notes are also subject to repurchase at a price equal to 101% of the principal amount, plus accrued and unpaid interest, upon a change of control or upon certain asset sales if we do not reinvest the net proceeds within 18 months. At any time prior to January 15, 2017, the 7.75% Senior Notes are redeemable, in whole or in part, at a make whole redemption price as defined in the indenture, plus accrued and unpaid interest and additional interest, if any. On and after January 15, 2017, the 7.75% Senior Notes are redeemable, in whole or in part, at a redemption price of 103.875%, decreasing to 101.938% on January 15, 2018 and 100% on January 15, 2019. The indenture governing the 7.75% Senior Notes contains covenants, including limitations of our ability to incur certain liens, incur additional indebtedness; declare or pay distributions if an event of default has occurred; redeem, repurchase, or retire equity interests or subordinated indebtedness; make certain investments; or merge, consolidate or sell substantially all of our assets.

Recent Developments

DTE Acquisition. On December 20, 2012, we completed the acquisition of DTE Gas Resources, LLC from DTE for $257.4 million, subject to certain post-closing adjustments (the DTE Acquisition). The assets include 261 gross producing wells generating approximately 23 MMcfed of production at the date of acquisition on over 88,000 net acres, approximately 40% of which are held by production and approximately 33% are in continuous development. The acreage position includes approximately 75,000 net acres prospective for the oil and NGL-rich Marble Falls play, in which there are over 700 identified vertical drilling locations. We believe that there are further potential development opportunities through vertical down-spacing and horizontal drilling in the Marble Falls formation, in which we expect to commence drilling operations by early 2013. The assets acquired from DTE are in close proximity to our other assets in the Barnett Shale.

Amendment to our revolving credit facility and new term loan credit facility. Also on December 20, 2012, in connection with the completion of the DTE Acquisition, we entered into an amendment to our revolving credit facility and a new term loan credit facility.

The amendment to our revolving credit facility:

- increased the borrowing base from $310.0 million to $410.0 million;

- stated that borrowings under the revolving credit facility bear interest, at our election, are at either LIBOR plus an applicable margin between 2.00% and 3.25% per annum or the base rate (which is the higher of the bank s prime rate, the Federal funds rate plus 0.5% or one-month LIBOR plus 1.00%) plus an applicable margin between 1.00% and 2.25% per annum;

- revised the maturity date to be the earlier of March 22, 2016 or February 19, 2014 (the date that is 91 days before the May 19, 2014 maturity date of our term loan credit facility) if any portion of the term loan debt is outstanding on that date; and

- amended the financial covenants to require that our ratio of Total Funded Debt (as defined in the credit agreement) to four quarters of EBITDA (as defined in the credit agreement) not be greater than 4.25 to 1.0 as of the last day of fiscal quarters ending on or before June 30, 2013, 4.00 to 1.0 as of September 30, 2013 and December 31, 2013, and 3.75 to 1.0 as of the last day of fiscal quarters ending after that date.

Our $77.6 term loan credit facility matures May 19, 2014, and contains terms substantially similar to our revolving credit facility except:

- our obligations are secured by second lien mortgages on our oil and gas properties and security interest in substantially all of our assets, and guarantees by substantially all of our subsidiaries;

borrowings bear interest, at our option, at either the prime rate plus 6.5% or LIBOR plus 7.5%;

we will be required to prepay borrowings with 100% of the net proceeds of any senior notes offering and 33% of the net proceeds from any equity offering; and

requires us to maintain a ratio of Total Funded Debt to EBITDA 0.50 higher than that required under our revolving credit facility, a ratio of EBITDA to Consolidated Interest Expense (as defined in the credit agreement) of not less than 2.25 to 1.0 as of the last day of any fiscal quarter, and a minimum asset coverage ratio (as defined in the credit agreement) of at least 1.5 to 1.0.

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We borrowed $179.8 million under our revolving credit facility and $77.6 million under our term loan facility to partially fund the DTE acquisition. We repaid the term loan credit facility in full with the proceeds from the sale of the 7.75% Senior Notes in January 2013 (see Subsequent Events).

Equity Offering. In November and December 2012, in connection with entering into a purchase agreement to acquire certain producing wells and net acreage from DTE, we sold an aggregate of 7,898,210 of our common limited partner units in a public offering at a price of $23.01 per unit, yielding net proceeds of approximately $174.5 million. We utilized the net proceeds from the sale to repay a portion of the outstanding balance under our revolving credit facility and $2.2 million under our term loan credit facility.

Acquisition of Titan Operating, L.L.C. In July 2012, we completed the acquisition of Titan in exchange for 3.8 million common units and 3.8 million newly-created convertible Class B preferred units (which had an estimated collective value of $193.2 million, based upon the closing price of our publicly traded units as of the acquisition closing date), as well as $15.4 million in cash for closing adjustments. Through the acquisition of Titan, we acquired interests in approximately 52 proved developed natural gas wells in the Barnett Shale, located in the Bend Arch Fort Worth Basin in North Texas. The cash paid at closing was funded through borrowings under our credit facility. The common units and preferred units were issued and sold in a private transaction exempt from registration under Section 4(2) of the Securities Act of 1933, as amended (the Securities Act).

Acquisition of Assets from Carrizo Oil & Gas, Inc. In April 2012, we acquired certain oil and natural gas assets from Carrizo for approximately $187.0 million in cash. The assets acquired include interests in approximately 200 producing natural gas wells from the Barnett Shale, located in Bend Arch Fort Worth Basin in North Texas, proved undeveloped acres also in the Barnett Shale and gathering pipelines and associated gathering facilities that service certain of the acquired wells. The purchase price was funded through borrowing under our credit facility and $119.5 million of net proceeds from the sale of 6.0 million of our common units at a negotiated purchase price per unit of $20.00, of which $5.0 million was purchased by certain of our executives. The common units were issued in a private transaction exempt from registration under Section 4(2) of the Securities Act.

Equal Acquisition. In April 2012, we acquired a 50% interest in approximately 14,500 net undeveloped acres in the oil and NGL area of the Mississippi Lime play in northwestern Oklahoma for $18.0 million from subsidiaries of Equal. The transaction was funded through borrowings under our revolving credit facility. Concurrent with the purchase of acreage, we and Equal entered into a participation and development agreement for future drilling in the Mississippi Lime play. We served as the drilling and completion operator, while Equal undertook production operations, including water disposal. In September 2012, we acquired Equal s remaining 50% interest in the undeveloped acres, as well as approximately 8 MMcfed of net production in the Mississippi Lime region and salt water disposal infrastructure for $41.3 million, including $1.3 million related to certain post-closing adjustments. The additional acquisition was subject to certain post-closing adjustments and funded with available borrowings under our revolving credit facility. As a result of our acquisition of Equal s remaining interest in the undeveloped acres, the existing joint venture agreement between us and Equal in the Mississippi Lime position was terminated and all infrastructure associated with the assets, principally the salt water disposal system, is operated by us.

Geographic and Geologic Overview

Appalachian Basin Overview. The Appalachian Basin includes the states of Kentucky, Maryland, New York, Ohio, Pennsylvania, Virginia and West Virginia. It is the most mature natural gas, crude oil and NGL producing region in the United States, having established the first oil production in 1860. Our development and production activities in the Appalachia Basin principally include the Marcellus Shale and other formations primarily in Pennsylvania and the Utica Shale and other formations primarily in Ohio.

The Marcellus Shale is a black, organic rich shale formation located at depths between 6,000 and 8,500 feet and ranges in thickness from 75 to 250 feet. As of December 31, 2012, we had an interest in approximately 270 Marcellus Shale wells, consisting of 229 vertical wells and 41 horizontal wells. As of December 31, 2012, we initiated drilling for eight Marcellus Shale horizontal wells in northeastern Pennsylvania, all of which we are drilling through our partnership management business, which are expected to be completed in 2013. As of December 31, 2012, we have approximately 3,000 Marcellus Shale undeveloped acres in Lycoming County, PA. Our future drilling activity in certain portions of the Appalachian Basin located in southwestern Pennsylvania, West Virginia and New York will be limited until February 17, 2014 by the terms of the non-competition agreements between certain of Atlas Energy s officers and directors and Chevron Corporation (NYSE: CVX; Chevron).

The Utica/Point Pleasant Shale is an Ordovician-age shale which covers a large portion of Pennsylvania, New York and West Virginia and lies several thousand feet below the Devonian-age Marcellus and other organic shales. The richest and thickest concentration of organic material is present within the Point Pleasant member of the Lower Utica formation. The Point Pleasant Shale is therefore the primary objective section of this shale play. As the Utica/Point Pleasant Shale increases in present day depth from central to eastern Ohio, so does the corresponding oil/condensate rich gas/dry gas areas, respectively. In general, near the Ohio/Pennsylvania border, the Utica/Point Pleasant Shale is in the dry gas window. As of December 31, 2012, we have approximately 4,500 net undeveloped acres prospective for the Utica Shale in Harrison, Tuscarawas and Stark counties in Ohio, upon which we have five horizontal wells in various stages of drilling as of December 31, 2012. In addition, we currently have an interest in approximately 2,500 wells in Ohio and operate three field offices which we intend to use for future Utica Shale development.

Because the Appalachian Basin is located near the leading energy-consuming regions of the mid-Atlantic and northeastern United States, Appalachian producers have historically sold their natural gas at a premium to the benchmark price for natural gas on the NYMEX. In addition, Appalachian natural gas production has the advantage of a high energy content, ranging from 1.00 to 1.11 dekatherms (Dth) per Mcf. The majority of our existing natural gas sales contracts yield upward adjustments from index based pricing for throughput with an energy content above 1.0 Dth per Mcf. This higher energy content resulted in realized premiums averaging 1.05% over normal pipeline quality natural gas for the year ended December 31, 2012.

Barnett Shale/Marble Falls. The Barnett Shale and Marble Falls play are located east of the Bend Arch and west of the Quachita Thrust in the Fort Worth Basin of northern Texas. The Barnett Shale is Mississippian-age shale formation located at depths between 5,000 and 8,000 feet and ranges in thickness from 100 and 600 feet. As of December 31, 2012, we had an interest in approximately 418 Barnett Shale wells and approximately 116,500 acres prospective for the Barnett Shale. The Marble Falls play is Pennsylvanian-age formation located above the Barnett Shale and beneath the Atoka at depths of approximately 5,500 feet and ranges in thickness from 50 and 400 feet. As of December 31, 2012, we had an interest in approximately 109 Marble Falls wells. Approximately 75,000 acres of our 116,500 acres prospective for the Barnett Shale are also prospective for the Marble Falls.

Mississippi Lime/Hunton. The Mississippi Lime and Hunton formations are located in the Anadarko Shelf in northern Oklahoma. The Mississippi Lime formation is an expansive carbonate hydrocarbon system and is located at depths between 4,000 and 7,000 feet between the Pennsylvanian-aged Morrow formation and the Devonian-aged world-class source rock Woodford Shale formation. The Mississippi Lime formation can reach 600 feet in gross thickness, with a targeted porosity zone between 50 and 100 feet thickness. The Hunton formation is a limestone formation located at a depth of approximately 7,500 feet, and ranges in thickness from 150 and 300 feet. As of December 31, 2012, we had an interest in approximately 35 Hunton wells. As of December 31, 2012, we initiated drilling for 11 Mississippi Lime horizontal wells, all of which we are drilling through our partnership management business, four of which have been completed as of December 31, 2012. As of December 31, 2012, we have approximately 19,800 undeveloped acres prospective for the Mississippi Lime.

Tennessee. The Chattanooga Shale is a Devonian-age shale found at a depth of approximately 3,500 feet. We have over 100,000 net undeveloped acres in the Chattanooga Shale in northeastern Tennessee. We operate approximately 457 wells in the region, 453 of which are funded through our investment partnerships and 38 of which are horizontal wells. We also own two gas processing plants in eastern Tennessee with combined capacity of approximately 35 MMcf per day, which capacity we believe can be increased.

New Albany Shale. The Devonian-age New Albany Shale is an organic rich source rock found at depths of 500 to 3,000 feet, with thicknesses ranging from 100 to 200 feet. We have a leasehold of over 100,000 net acres in the New Albany Shale in southwestern Indiana located is in the biogenic gas window. The natural fracture patterns in the New Albany Shale are vertically oriented, which lends itself to a horizontal drilling approach. As of December 31, 2012, we have an interest in 111 wells in the New Albany Shale, of which we operate 105.

Niobrara Shale. Within the Denver-Julesburg Basin, we have primarily focused on the Niobrara Shale, which extends from northeastern Colorado to southern Wyoming into western Nebraska. Our developmental drilling program is focused on the shallow, gas-rich Niobrara in eastern Colorado, western Nebraska, and Kansas. Although natural gas was discovered in the Niobrara Shale in 1919, drilling in the area did not become commercial until the use of fracturing technologies became prevalent in the 1970s and 1980s. Development continued through the 1990s, but drilling success rates in the region were enhanced by the more recent development of 3-D seismic technology. The Niobrara Shale is suitable for conventional drilling of shallow developmental natural gas wells, which are wells drilled in an area of proven reserves to the depth of a horizon known to be productive. The Niobrara Shale presents the potential for efficient drilling, completion and production operations, as well as relatively quick well turn-in-line timeframes and favorable topography.

We are a party to a farm-out agreement with Black Raven Energy covering 178,000 acres located in the Niobrara formation in eastern Colorado and western Nebraska, pursuant to which we pay a per well fee and production royalties to Black Raven. The acreage subject to our farm-out agreement encompasses the development of shallow Niobrara gas wells at about 2,700 feet in depth with site selection based on the identification of 3D seismic structures. We operate 191 wells in the region, all of which were funded through our investment partnerships.

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Gas and Oil Production

Production Volumes

Currently, our natural gas, crude oil and NGL production operations are focused in various shale plays throughout the United States, and include direct interest wells and ownership interests in wells drilled through our drilling partnerships. When we drill new wells through our partnership management business we receive an interest in each investment partnership proportionate to the value of our coinvestment in it and the value of the acreage we contribute to it, typically 15% to 31% of the overall capitalization of a particular partnership. We also receive an incremental interest in each partnership, typically 5% to 10%, for which we do not make any additional capital contribution. Consequently, our equity interest in the reserves and production of each partnership is typically between 20% and 41%. The following table presents our total net natural gas, oil and natural gas liquids production volumes and production per day for the three year period ended December 31, 2012, 2011 and 2010:

	Years Ended December 31,		
	2012	2011	2010
Production per day:[(1)(2)]			
Natural gas (Mcfd)	69,408	31,403	35,855
Oil (Bpd)	330	307	373
Natural gas liquids (Bpd)	974	444	499
Total (Mcfed)	77,232	35,912	41,090

(1) Mcfd represents thousand cubic feet per day; Mcfed represents thousand cubic feet equivalents per day; and Bpd represent barrels and barrels per day.
(2) Production quantities consist of the sum of (i) our proportionate share of production from wells in which we have a direct interest, based on our proportionate net revenue interest in such wells, and (ii) our proportionate share of production from wells owned by the investment partnerships in which we have an interest, based on our equity interest in each such partnership and based on each partnership s proportionate net revenue interest in these wells.

Production Revenues, Prices and Costs

We market the majority of our natural gas production to gas utility companies, gas marketers, local distribution companies, industrial or other end-users, and companies generating electricity. The sales price of natural gas produced is a function of the market in the area and typically tied to a regional index. The production area and pricing indexes are as follows: Appalachian Basin and Mississippi Lime, primarily the NYMEX spot market price; Barnett Shale and Marble Falls, primarily the Waha spot market price; New Albany Shale and Antrim Shale, primarily the Texas Gas Zone SL and Chicago Hub spot market prices; and Niobrara formation, primarily the Cheyenne Hub spot market price. NGLs are produced by our natural gas processing plants, which extract the NGLs from the natural gas production, enabling the remaining dry gas (low Btu content) to meet pipeline specifications for long-haul transport to end users. Our NGLs are generally priced using the Mont Belvieu (TX) regional processing hub.

Our production revenues and estimated gas and oil reserves are substantially dependent on prevailing market prices for natural gas, which comprised 79% of our proved reserves on an energy equivalent basis at December 31, 2012. The following table presents our production revenues and average sales prices for our natural gas, oil and natural gas liquids production for the years ended December 31, 2012, 2011 and 2010, along with our average production costs, taxes, and transportation and compression costs in each of the reported periods:

	Years Ended December 31,		
	2012	2011	2010
Production revenues (in thousands):			
Natural gas revenue	$ 70,151	$ 49,096	$ 75,630
Oil revenue	11,351	10,057	10,541
Natural gas liquids revenue	11,399	7,826	6,879

Total revenues	$ 92,901	$ 66,979	$ 93,050
Average sales price:			
Natural gas (per Mcf):			
Total realized price, after hedge[(1)]	$ 3.29	$ 4.98	$ 7.08
Total realized price, before hedge[(1)]	$ 2.60	$ 4.53	$ 4.60

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	Years Ended December 31, 2012	2011	2010
Oil (per Bbl):			
Total realized price, after hedge	$ 94.02	$ 89.70	$ 77.31
Total realized price, before hedge	$ 91.32	$ 89.07	$ 71.37
Natural gas liquids (per Bbl) total realized price:	$ 31.97	$ 48.26	$ 37.78
Production costs (per Mcfe):			
Lease operating expenses(2)	$ 0.82	$ 1.09	$ 1.27
Production taxes	0.12	0.10	0.04
Transportation and compression	0.24	0.43	0.65
Total	$ 1.19	$ 1.61	$ 1.96

(1) Excludes the impact of subordination of our production revenue to investor partners within our investment partnerships. Including the effect of this subordination, the average realized gas sales prices were $2.76 per Mcf ($2.08 per Mcf before the effects of financial hedging), $4.28 per Mcf ($3.83 per Mcf before the effects of financial hedging) and $5.78 per Mcf ($3.30 per Mcf before the effects of financial hedging) for the years ended December 31, 2012, 2011 and 2010, respectively.

(2) Excludes the effects of our proportionate share of lease operating expenses associated with subordination of our production revenue to investor partners within our investment partnerships. Including the effects of these costs, total lease operating expenses per Mcfe were $0.58 per Mcfe ($0.94 per Mcfe for total production costs), $0.77 per Mcfe ($1.33 per Mcfe for total production costs) and $0.86 per Mcfe ($1.56 per Mcfe for total production costs) for the years ended December 31, 2012, 2011 and 2010, respectively.

Partnership Management Business

We generally fund our drilling activities through sponsorship of tax-advantaged investment partnerships. Accordingly, the amount of development activities we undertake depends in part upon our ability to obtain investor subscriptions to the partnerships. We generally structure our investment partnerships so that, upon formation of a partnership, we coinvest in and contribute leasehold acreage to it, enter into drilling and well operating agreements with it and become its managing general partner. In addition to providing capital for our drilling activities, our investment partnerships are a source of fee-based revenues, which are not directly dependent on commodity prices. We receive an interest in the investment partnerships proportionate to the amount of capital and the value of the leasehold acreage that we contribute, which interest is typically 15% to 31% of the overall capitalization in a particular partnership. We also receive an additional interest in each partnership, typically 5% to 10%, for operating the wells and managing the general partner for which we do not make any additional capital contribution. This brings our total interest in the partnerships in a range from 20% to 41%.

Over the last five years, we raised over $1.2 billion from outside investors for participation in our drilling partnerships. Net proceeds from these partnerships are used to fund the investors share of drilling and completion costs under our drilling contracts with the partnerships. We recognize revenues from drilling operations on the percentage-of-completion method as the wells are drilled, rather than when funds are received.

Our fund raising activities for sponsored drilling partnerships during the last five years are summarized in the following table (amounts in millions):

	Drilling Program Capital: Investor contributions	Our contributions	Total capital
2012	$ 127.1	$ 54.4	$ 181.5
2011	141.9	28.3	170.2
2010(1)	149.3	53.4	202.7
2009	353.4	97.5	450.9
2008	438.4	146.3	584.7
Total	$ 1,210.1	$ 379.9	$ 1,590.0

(1) Does not include funds raised for a fall 2010 drilling program, which was cancelled due to the announcement of the acquisition of the Transferred Business in November 2010 (see Item 7: Management s Discussion and Analysis of Financial Condition and Results of Operations).

As managing general partner of our investment partnerships, we receive the following fees:

Well construction and completion. For each well that is drilled by an investment partnership, we receive a 15% to 18% mark-up on those costs incurred to drill and complete the well;

Administration and oversight. For each well drilled by an investment partnership, we receive a fixed fee between $15,000 and $400,000, depending on the type of well drilled. Additionally, the partnership pays us a monthly per well administrative fee of $75 for the life of the well. Because we coinvest in the partnerships, the net fee that we receive is reduced by our proportionate interest in the well;

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Well services. Each partnership pays us a monthly per well operating fee, currently $100 to $2,000, for the life of the well. Because we coinvest in the partnerships, the net fee that we receive is reduced by our proportionate interest in the wells; and

Gathering. Each royalty owner, partnership and certain other working interest owners pay us a gathering fee, which in general is equivalent to the fees we remit. In Appalachia, a majority of our Drilling Partnership wells are subject to a gathering agreement, whereby we remit a gathering fee of 16%. However, based on the respective investment partnership agreements, we charge our Drilling Partnership wells a 13% gathering fee. As a result, some of our gathering expenses within our partnership management segment, specifically those in the Appalachian Basin, will generally exceed the revenues collected from Drilling Partnerships by approximately 3%.

Our investment partnerships provide tax advantages to our investors because an investor s share of the partnership s intangible drilling cost deduction may be used to offset ordinary income. Intangible drilling costs include items that do not have salvage value, such as labor, fuel, repairs, supplies and hauling. Generally, for our investment partnerships that were formed after October 2008, approximately 85% of the subscription proceeds received have been used to pay 100% of the partnership s intangible drilling costs. For example, an investment of $10,000 generally permits the investor to deduct from taxable ordinary income approximately $8,500 in the year in which the investor invests. For our investment partnerships that were formed prior to October 2008, approximately 90% of the subscription proceeds received were used to pay 100% of the partnership s intangible drilling costs.

Within our investment partnerships, we have agreed to subordinate a portion of our share of production revenues, net of corresponding production costs, to the investor partners until the partners have received specified returns, typically 10% per year, over a specific period, typically the first five to seven years, as stipulated within the individual investor partnership agreement.

Drilling Activity

The number of wells we drill will vary depending on, among other things, the amount of money we raise through our investment partnerships, the cost of each well, the estimated recoverable reserves attributable to each well and accessibility to the well site. The following table sets forth information with respect to the number of wells we drilled, both gross and for our interest, during the periods indicated. There were no exploratory wells drilled during the years ended December 31, 2012, 2011 and 2010.

	Years Ended December 31,		
	2012	**2011**	**2010**
Gross wells drilled	105	160	117
Our share of gross wells drilled(1)	42	31	34

(1) Includes (i) our percentage interest in the wells in which we have a direct ownership interest and (ii) our percentage interest in the wells based on our percentage interest in our investment partnerships.

We do not operate any of the rigs or related equipment used in our drilling operations, relying instead on specialized subcontractors or joint venture partners for all drilling and completion work. This enables us to streamline our operations and conserve capital for investments in new wells, infrastructure and property acquisitions, while generally retaining control over all geological, drilling, engineering and operating decisions. We perform regular inspection, testing and monitoring functions on our operated wells.

As of December 31, 2012, we had the following ongoing drilling activities:

	Gross			Net		
	Spud	**Total Depth**	**Completed**	**Spud**	**Total Depth**	**Completed**
Marcellus Vertical						
Marcellus Horizontal	4	4		4	4	
Barnett Horizontal	1	6	9	1	6	7
Mississippi Lime Horizontal	4	3	1	4	3	1
Utica Horizontal	5			5		

Chattanooga Vertical				
Chattanooga Horizontal				
Niobrara Vertical	2	2	2	2
Ohio Vertical				

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Hydrocarbon property leases

The typical oil and gas lease agreement provides for the payment of a percentage of the proceeds, known as a royalty, to the mineral owner for all natural gas, oil and other hydrocarbons produced from any well(s) drilled on the leased premises. In the Appalachian Basin, Colorado, and Michigan Basins, this amount, historically has typically been between 1/8th (12.5%) and 1/6th (16.66%) resulting in a net revenue interest to us of between 87.5% and 83.33%. With the discovery of the Marcellus and Utica Shales in the Appalachian Basin in the last few years, and the resultant competition for undeveloped acreage, it has become very common for landowners to demand royalty rates up to 20%, which leaves us with a net revenue interest of 80%. In Oklahoma (Mississippi Lime) and Texas (Barnett shale and Marble Falls), both states where we have recently acquired substantial acreage positions, royalties are commonly in the 15-20% range, resulting in net revenue interests to us in the 80-85% range.

Historically, in almost all of the areas we operate in the Appalachian Basin, Colorado, Indiana and Michigan, the surface owner is normally the mineral owner, and we were drilling vertical wells on drilling units that typically comprised 40-160 acres, allowing us to deal with a single, or very few owners/lessors. This simplifies the research and acquisition process required to identify the proper owners of the mineral and surface rights and reduces the per acre lease acquisition cost and the time required to successfully acquire the desired leases that comprised drilling units. In the Texas Barnett Shale, Oklahoma Mississippi Lime and Appalachian Basin Marcellus and Utica plays, we are generally drilling horizontal wells on much larger drilling units (sometimes approaching 1,000 acres), which nearly always means acquiring mineral and/or surface rights from multiple parties. In the case of urban drilling areas in the Barnett Shale, we have as many as 3,500 royalty owners within a single drilling unit. The much higher volume (than typical Appalachian vertical wells) horizontal wells in these areas justify the additional acquisition cost and time involved in securing the necessary rights and agreements needed for the larger drilling units.

Because the acquisition of hydrocarbon leases in highly desirable basins is a very competitive process, and involves certain geological and business risks to identify prospective areas, leases are frequently held by other oil and gas operators. In order to access the rights to drill on these leases, we may elect to farm-in lease rights and/or purchase leases from competitor operators. Typically, the assignor of such leases will reserve an overriding royalty interest (over and above the existing mineral owner royalty), that can range from 2-3% up to as high as 7 or 8%, and sometimes contain options to convert the overriding royalty interests to working interests at payout of a well. Areas where farm-ins are utilized can result in additional reductions in our net revenue interests, depending upon their terms and how much of a particular drilling unit the farm-in acreage covers.

There will be occasions where competitors owning leasehold interests in areas where we want to drill will not farm-out or sell their leases, but will instead join us as working interest partners, paying their proportionate share of all drilling and operating costs in a well. However, it is always our goal to obtain 100% of the working interest in any and all new wells that we operate.

Contractual Revenue Arrangements

Natural gas. We market the majority of our natural gas production to gas utility companies, gas marketers, local distribution companies and industrial or other end-users. The sales price of natural gas produced is a function of the market in the area and typically tied to a regional index. The production area and pricing indexes are as follows: Appalachian Basin and Mississippi Lime, primarily the NYMEX spot market price; Barnett Shale and Marble Falls, primarily the Waha spot market price; New Albany Shale and Antrim Shale, primarily the Texas Gas Zone SL and Chicago Hub spot market prices; and Niobrara formation, primarily the Cheyenne Hub spot market price.

We do not hold firm transportation obligations on any pipeline that requires payment of transportation fees regardless of natural gas production volumes. As is customary in certain of our other operating areas, we occasionally commit a predictable portion of monthly production to the purchaser in order to maintain a gathering agreement.

Crude oil. Crude oil produced from our wells flows directly into leasehold storage tanks where it is picked up by an oil company or a common carrier acting for an oil company. The crude oil is typically sold at the prevailing spot market price for each region, less appropriate trucking charges. We do not have delivery commitments for fixed and determinable quantities of crude oil in any future periods under existing contracts or agreements.

Natural gas liquids. NGL s are extracted from the natural gas stream by processing and fractionation plants enabling the remaining dry gas (low Btu content) to meet pipeline specifications for transport to end users or marketers operating on the receiving pipeline. The resulting dry natural gas is sold as described above and our NGLs are generally priced using the

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Mont Belvieu (TX) regional processing hub. The cost to process and fractionate the NGLs from the gas stream is typically either a volumetric fee for the gas and liquids processed or a volumetric retention by the processing and fractionation facility. We do not have delivery commitments for fixed and determinable quantities of NGLs in any future periods under existing contracts or agreements.

For the year ended December 31, 2012, Chevron and Atmos Energy Marketing, LLC accounted for approximately 43% and 11% of our total natural gas, oil, and NGL production revenues, respectively, with no other single customer accounting for more than 10% for this period.

Investment partnerships. We generally have funded a portion of our drilling activities through sponsorship of tax-advantaged investment drilling partnerships. In addition to providing capital for our drilling activities, our investment partnerships are a source of fee-based revenues, which are not directly dependent on commodity prices. See Partnership Management Business for further discussion.

Natural Gas and Oil Hedging

We seek to provide greater stability in our cash flows through our use of financial hedges. The financial hedges may include purchases of regulated NYMEX futures and options contracts and non-regulated over-the-counter futures and options contracts with qualified counterparties. Financial hedges are contracts between ourselves and counterparties and do not require physical delivery of hydrocarbons. Financial hedges allow us to mitigate hydrocarbon price risk, and cash is settled to the extent there is a price difference between the hedge price and the actual NYMEX settlement price. Settlement typically occurs on a monthly basis, at the time in the future dictated within the hedge contract. Financial hedges executed in accordance with our secured credit facility do not require cash margin and are secured by our natural gas and oil properties. To assure that the financial instruments will be used solely for hedging price risks and not for speculative purposes, we have a management committee to assure that all financial trading is done in compliance with our hedging policies and procedures. We do not intend to contract for positions that we cannot offset with actual production.

Natural Gas Gathering Agreements

Virtually all natural gas produced is gathered through one or more pipeline systems before sale or delivery to an end user, a marketer, or an interstate pipeline. A gathering fee can be charged for each gathering activity that is utilized and by each separate gatherer providing the service. Fees will vary depending on the distance the gas travels and whether additional services such as compression, blending, or contaminant removal are provided.

In Appalachia, our two primary gathering agreements are with Laurel Mountain Midstream, LLC (Laurel Mountain). Under the gathering agreements, we dedicate our natural gas production in certain areas within the Appalachian Basin to Laurel Mountain for transportation to interstate pipeline systems, local distribution companies, and/or end users in the area, subject to certain exceptions. In return, Laurel Mountain is required to accept and transport our dedicated natural gas in the Appalachian Basin subject to certain conditions. The greater of $0.35 per mcf or 16% of the gross sales price of the natural gas is charged by Laurel Mountain for the majority of the gas. A lesser fee does apply to a small number of specific wells in the area.

Mississippi Lime production is currently gathered, processed, fractionated, and marketed by one company, SemGas, and they return a Percent of Proceeds (POP) of the revenues they receive. That POP amount is approximately 92%, with 8% being the SemGas fee for all services provided.

Barnett and Marble Falls production in Texas is gathered by a variety of gathering entities depending on the location of the production. As in the case of Appalachian and Mississippi Lime production, either a fee is charged for the gathering activity alone, or a company may provide a combination of services to include processing, fractionation, and/or marketing. In some instances, the market to which the gas is sold will deduct the third-party gathering fees from the proceeds payable and pay the third-party gatherers directly.

Availability of Energy Field Services

We contract for drilling rigs and purchase goods and services necessary for the drilling and completion of wells from a number of drillers and suppliers, none of which supplies a significant portion of our annual needs. During the years ended December 31, 2012 and 2011, we faced no shortage of these goods and services. Over the past several years, we and other oil and natural gas companies have experienced higher drilling and operating costs. We cannot predict the duration or stability of the current level of supply and demand for drilling rigs and other goods and services required for our operations with any certainty due to numerous factors affecting the energy industry, including the demand for natural gas and oil.

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We maintain a Pennsylvania operating services agreement, pursuant to which a subsidiary of Chevron provides us (including drilling partnerships which we manage) with certain operational services including, among other things, gas volumetric control, measurement and balancing services and water disposal services with respect to certain wells in Pennsylvania in exchange for specified fees. We will indemnify the provider against all claims and liabilities arising out of its provision of services under this agreement. We may terminate the agreement or any portion of the services provided under the agreement at any time, and either party may terminate the agreement following an uncured material breach of the agreement by the other party. The initial term of this agreement will expire on February 17, 2014. The agreement may continue from month to month thereafter, subject to the right of either party to cancel the agreement at any time following the expiration of the initial term.

Competition

The energy industry is intensely competitive in all of its aspects. We operate in a highly competitive environment for acquiring properties and other energy companies, attracting capital through our investment partnerships, contracting for drilling equipment and securing trained personnel. We also compete with the exploration and production divisions of public utility companies for mineral property acquisitions. Competition is intense for the acquisition of leases considered favorable for the development of hydrocarbons in commercial quantities. Our competitors may be able to pay more for hydrocarbon properties and to evaluate, bid for and purchase a greater number of properties than our financial or personnel resources permit. Furthermore, competition arises not only from numerous domestic and foreign sources of hydrocarbons but also from other industries that supply alternative sources of energy. Product availability and price are the principal means of competition in selling natural gas, crude oil, and natural gas liquids.

Many of our competitors possess greater financial and other resources which may enable them to identify and acquire desirable properties and market their hydrocarbon production more effectively than we do. Moreover, we also compete with a number of other companies that offer interests in investment partnerships. As a result, competition for investment capital to fund investment partnerships is intense.

Markets

The availability of a ready market for natural gas, oil and NGLs and the price obtained, depends upon numerous factors beyond our control, as described in Item 1A: Risk Factors - Risks Relating to Our Business . Product availability and price are the principal means of competition in selling natural gas, oil and NGLs. During the years ended December 31, 2012, 2011 and 2010, we did not experience problems in selling our natural gas, oil and NGLs, although prices have varied significantly during those periods.

Seasonal Nature of Business

Generally, but not always, the demand for natural gas decreases during the summer months and increases during the winter months. Seasonal anomalies such as mild winters or hot summers sometimes lessen this fluctuation. In addition, certain natural gas users utilize natural gas storage facilities and purchase some of their anticipated winter requirements during the summer. This can also lessen seasonal demand fluctuations. In addition, seasonal weather conditions and lease stipulations can limit our drilling and producing activities and other operations in certain areas of the Appalachian region and Michigan/Indiana. These seasonal anomalies may pose challenges for meeting our well construction objectives and increase competition for equipment, supplies and personnel, which could lead to shortages and increase costs or delay our operations. We have in the past drilled a greater number of wells during the winter months, because we have typically received the majority of funds from investment partnerships during the fourth calendar quarter.

Environmental Matters and Regulation

Overview. Our operations are subject to comprehensive and stringent federal, state and local laws and regulations governing, among other things, where and how we drill wells, how we handle waste from our operations and the discharge of materials into the environment. Our operations will be subject to the same environmental laws and regulations as other companies in the natural gas and oil industry. Among other requirements and restrictions, these laws and regulations:

- require the acquisition of various permits before drilling commences;
- require the installation of expensive pollution control equipment and water treatment facilities;

restrict the types, quantities and concentration of various substances that can be released into the environment in connection with drilling, completion and production activities;

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- limit or prohibit drilling activities on certain land;
- require remedial measures to reduce, mitigate and/or respond to releases of pollutants or hazardous substances from existing and former operations, such as pit closure and plugging of abandoned wells;
- impose substantial liabilities for pollution resulting from our operations; and
- with respect to operations affecting federal lands or leases, require preparation of a Resource Management Plan, an Environmental Assessment, and/or an Environmental Impact Statement.

These laws, rules and regulations may also restrict the rate of natural gas and oil production below the rate that would otherwise be possible. The regulatory burden on the natural gas and oil industry increases the cost of doing business in the industry and consequently affects profitability. Additionally, Congress and federal and state agencies frequently enact new, and revise existing, environmental laws and regulations, and any new laws or changes to existing laws that result in more stringent and costly waste handling, disposal and clean-up requirements for the natural gas and oil industry could have a significant impact on our operating costs. We believe that our operations substantially comply with all currently applicable environmental laws and regulations and that our continued compliance with existing requirements will not have a material adverse impact on our financial condition and results of operations. However, we cannot predict how environmental laws and regulations that may take effect in the future may impact our properties or operations. For the three-year period ended December 31, 2012, we did not incur any material capital expenditures for installation of remediation or pollution control equipment at any of our facilities. We are not aware of any environmental issues or claims that will require material capital expenditures during 2013, or that will otherwise have a material impact on our financial position or results of operations.

Environmental laws and regulations that could have a material impact on the natural gas and oil exploration and production industry include the following:

National Environmental Policy Act. Natural gas and oil exploration and production activities on federal lands are subject to the National Environmental Policy Act (NEPA). NEPA requires federal agencies, including the Department of Interior, to evaluate major federal agency actions having the potential to significantly impact the environment. In the course of such evaluations, an agency will typically require an Environmental Assessment to assess the potential direct, indirect and cumulative impacts of a proposed project and, if necessary, will prepare a more detailed Environmental Impact Statement that will be made available for public review and comment. All of our proposed exploration and production activities on federal lands require governmental permits, many of which are subject to the requirements of NEPA. This process has the potential to delay the development of natural gas and oil projects.

Waste Handling. The Solid Waste Disposal Act, including the Resource Conservation and Recovery Act (RCRA) and comparable state statutes regulate the generation, transportation, treatment, storage, disposal and cleanup of hazardous wastes and the disposal of non-hazardous wastes. Under the auspices of the Environmental Protection Agency (EPA), individual states administer some or all of the provisions of RCRA, sometimes in conjunction with their own more stringent requirements. Drilling fluids, produced waters, and most of the other wastes associated with the exploration, development, and production of crude oil and natural gas constitute solid wastes , which are regulated under the less stringent non-hazardous waste provisions, but there is no guarantee that the EPA or individual states will not adopt more stringent requirements for the handling of non-hazardous wastes or categorize some non-hazardous wastes as hazardous for future regulation.

We believe that our operations are currently in substantial compliance with the requirements of RCRA and related state and local laws and regulations, and that we hold all necessary and up-to-date permits, registrations and other authorizations to the extent that our operations require them under such laws and regulations. Although we do not believe the current costs of managing our wastes to be significant, any more stringent regulation of natural gas and oil exploitation and production wastes could increase our costs to manage and dispose of such wastes.

Comprehensive Environmental Response, Compensation and Liability Act. The Comprehensive Environmental Response, Compensation and Liability Act (CERCLA), also known as the Superfund law, imposes joint and several liability, without regard to fault or legality of conduct, on persons who are considered under the statute to be responsible for the release of a hazardous substance into the environment. These persons include the owner or operator of the site where the release occurred and companies that disposed or arranged for the disposal of the hazardous substance at the site. Under CERCLA, such persons may be liable for the costs of cleaning up the hazardous substances that have been released into the environment, for damages to natural resources and for the costs of certain health studies. In addition, it is not uncommon for neighboring landowners and other third parties to file claims for personal injury and property damage allegedly caused by the hazardous substances released into the environment.

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Our operations are, in many cases, conducted at properties that have been used for natural gas and oil exploitation and production for many years. Although we believe we utilized operating and waste disposal practices that were standard in the industry at the time, hazardous substances, wastes or hydrocarbons may have been released on or under the properties owned or leased by us or on or under other locations, including off-site locations, where such substances have been taken for disposal. In addition, some of these properties have been operated by third parties or by previous owners or operators whose treatment and disposal of hazardous substances, wastes or hydrocarbons was not under our control. These properties and the substances disposed or released on them may be subject to CERCLA, RCRA and analogous state laws. Under such laws, we could be required to remove previously disposed substances and wastes, remediate contaminated property or perform remedial plugging or pit closure operations to prevent future contamination.

Water Discharges. The Federal Water Pollution Control Act, also known as the Clean Water Act, and analogous state laws impose restrictions and strict controls on the discharge of pollutants, including produced waters and other natural gas and oil wastes, into navigable waters of the United States. The discharge of pollutants into regulated waters is prohibited, except in accordance with the terms of a permit issued by EPA or the relevant state. These permits may require pretreatment of produced waters before discharge. Compliance with such permits and requirements may be costly. Further, much of our natural gas extraction activity utilizes a process called hydraulic fracturing, which results in water discharges that must be treated and disposed of in accordance with applicable regulatory requirements.

The Clean Water Act also prohibits the discharge of dredge and fill material in regulated waters, including wetlands, unless authorized by a permit issued by the U.S. Army Corps of Engineers. The Clean Water Act also requires specified facilities to maintain and implement spill prevention, control and countermeasure plans and to take measures to minimize the risks of petroleum spills. Federal and state regulatory agencies can impose administrative, civil and criminal penalties for failure to obtain or non-compliance with discharge permits or other requirements of the federal Clean Water Act and analogous state laws and regulations. We believe our operations are in substantial compliance with the requirements of the Clean Water Act.

Air Emissions. The Clean Air Act, and associated state laws and regulations, regulate emissions of various air pollutants through permits and other requirements. In addition, the EPA has developed, and continues to develop, stringent regulations governing emissions of toxic and other air pollutants at specified sources. In 2012, specific federal regulations applicable to the natural gas industry were finalized under the New Source Performance Standards (NSPS) program along with National Emissions Standards for Hazardous Air Pollutants (NESHAP s). These new regulations impose additional emissions control requirements and practices on our operations. Some of our new facilities may be required to obtain permits before work can begin, and existing facilities may be required to incur capital costs in order to comply with new emission limitations. These regulations may increase the costs of compliance for some facilities, and federal and state regulatory agencies can impose administrative, civil and criminal penalties for non-compliance. These laws and regulations also apply to entities that use natural gas as fuel, and may increase the costs of compliance of our customers to the point where demand for natural gas is affected. We believe that our operations are in substantial compliance with the requirements of the Clean Air Act.

OSHA and other regulations. We are subject to the requirements of the federal Occupational Safety and Health Act (OSHA) and comparable state statutes. The OSHA hazard communication standard, the EPA community right-to-know regulations under Title III of CERCLA and similar state statutes require that we organize and/or disclose information about hazardous materials used or produced in our operations. We believe that we are in substantial compliance with these applicable requirements and with other OSHA and comparable requirements.

Greenhouse gas regulation and climate change. Natural gas contains methane, which is considered to be a greenhouse gas. Additionally, the burning of natural gas produces carbon dioxide, which is also a greenhouse gas. Published studies have suggested that the emission of greenhouse gases may be contributing to global warming. To date, legislative and regulatory initiatives relating to greenhouse gas emissions have not had a material impact on our business. However, Congress has been actively considering climate change legislation. More directly, the EPA has begun regulating greenhouse gas emissions under the federal Clean Air Act. In response to the Supreme Court s decision in Massachusetts V. EPA, 549 U.S. 497 (2007)(holding that greenhouse gases are air pollutants covered by the Clean Air Act), the EPA made a final determination that greenhouse gases endangered public health and welfare, 74 Fed. Reg. 66,496 (December 15, 2009). This finding led to the regulation of greenhouse gases under the Clean Air Act. Currently, the EPA has promulgated two rules that will impact our business.

First, the EPA promulgated the so-called Tailoring Rule which established emission thresholds for greenhouse gases under the Clean Air Act permitting programs, 75 Fed. Reg. 31514 (June 3, 2010). Both the federal preconstruction review program (Prevention of Significant Deterioration, or PSD) and the operating permit program (Title V) are now implicated by emissions of greenhouse gases. These programs, as modified by the Tailoring Rule, could require some new facilities to obtain a PSD permit depending on the size of the new facilities. In addition, existing facilities as well as new facilities that exceed the emissions thresholds could be required to obtain Title V operating permits.

Second, the EPA finalized its Mandatory Reporting of Greenhouse Gases rule in 2009, 74 Fed. Reg. 56,260 (October 30, 2009). Subsequent revisions, additions, and clarification rules were promulgated, including a rule specifically addressing the natural gas industry. These rules require certain industry sectors that emit greenhouse gases above a specified threshold to report greenhouse gas emissions to the EPA on an annual basis. The natural gas industry is covered by the rule and requires annual greenhouse gas emissions to be reported for 2012 no later than April 1, 2013. This rule imposes additional obligations on us to determine whether the greenhouse gas reporting applies and if so, to calculate and report greenhouse gas emissions.

There are also ongoing legislative and regulatory efforts to encourage the use of cleaner energy technologies. While natural gas is a fossil fuel, it is considered to be more benign, from a greenhouse gas standpoint, than other carbon-based fuels, such as coal or oil. Thus future regulatory developments could have a positive impact on our business to the extent that they either decrease the demand for other carbon-based fuels or position natural gas as a favored fuel.

In addition to domestic regulatory developments, the United States is a participant in multi-national discussion intended to deal with the greenhouse gas issue on a global basis. To date, those discussions have not resulted in the imposition of any specific regulatory system, but such talks are continuing and may result in treaties or other multi-national agreements that could have an impact on our business.

Finally, as noted above, the scientific community continues to engage in a healthy debate as to the impact of greenhouse gas emissions on planetary conditions. For example, such emissions may be responsible for increasing global temperatures, and/or enhancing the frequency and severity of storms, flooding and other similar adverse weather conditions. We do not believe that these conditions are having any material current adverse impact on our business, and we are unable to predict at this time, what, if any, long-term impact such climate effects would have.

Other regulation of the natural gas and oil industry. The natural gas and oil industry is extensively regulated by numerous federal, state and local authorities. Legislation affecting the natural gas and oil industry is under constant review for amendment or expansion, frequently increasing the regulatory burden. Also, numerous departments and agencies, both federal and state, are authorized by statute to issue rules and regulations binding on the natural gas and oil industry and its individual members, some of which carry substantial penalties for failure to comply. Although the regulatory burden on the natural gas and oil industry increases our cost of doing business and, consequently, affects our profitability, these burdens generally do not affect us any differently or to any greater or lesser extent than they affect other companies in their industries with similar types, quantities and locations of production.

Legislation continues to be introduced in Congress and development of regulations continues in the Department of Homeland Security and other agencies concerning the security of industrial facilities, including natural gas and oil facilities. Our operations may be subject to such laws and regulations. Presently, it is not possible to accurately estimate the costs we could incur to comply with any such facility security laws or regulations, but such expenditures could be substantial.

Energy Policy Act of 2005. Much of our natural gas extraction activity utilizes a process called hydraulic fracturing. The Energy Policy Act of 2005 amended the definition of underground injection in the Federal Safe Drinking Water Act of 1974 (SDWA). This amendment effectively excluded hydraulic fracturing for oil, gas, or geothermal activities from the SDWA permitting requirements, except when diesel fuels are used in the hydraulic fracturing operations. Recently, this subject has received much regulatory and legislative attention at both the federal and state level and we anticipate that the permitting and compliance requirements applicable to hydraulic fracturing activity are likely to become more stringent and could have a material adverse impact on ARP s business and operations. For instance, the U.S. EPA published a draft Permitting Guidance for Oil and Gas Hydraulic Fracturing Activities Using Diesel Fuels (Draft Diesel Guidance) on May 10, 2012 for public comment through August 23, 2012. In that Draft Diesel Guidance, the EPA asserts SDWA permitting authority over hydraulic fracturing activities that employ the injection of diesel fuel. The EPA is in the process of reviewing the comments to the Draft Diesel Guidance, and at present we are not aware of EPA s timeframe to respond to the comments it received from the public.

The U.S. Senate and House of Representatives considered legislative bills in the 111th and 112th Sessions of Congress that, if enacted, would repeal the SDWA permitting exemption for hydraulic fracturing activities. Titled the Fracturing Responsibility and Awareness of Chemicals Act (or Frac Act), the proposed legislative bills as proposed could potentially lead to significant oversight of hydraulic fracturing activities by federal and state agencies. These legislative bills, if re-introduced, or any similar legislation introduced in the 113th Session of Congress could potentially result in significant regulatory oversight if enacted into law, which may include additional permitting, monitoring, recording, and recordkeeping requirements for us.

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We believe our operations are in substantial compliance with existing SDWA requirements. However, future compliance with the SDWA could result in additional requirements and costs due to the possibility that new or amended laws, regulations, or policies could be implemented or enacted in the future.

Drilling and Production. Our operations are subject to various types of regulation at the federal, state and local levels. These types of regulation include requiring permits for the drilling of wells, drilling bonds and reports concerning operations. Most states, and some counties and municipalities, in which we will operate also regulate one or more of the following:

- the location of wells;
- the manner in which water necessary to develop wells is accessed, utilized, managed and disposed of;
- the method of drilling, completing and casing and producing wells;
- the surface use and restoration of properties upon which wells are drilled;
- the plugging and abandoning of wells; and
- notice to surface owners and other third parties.

State laws regulate the size and shape of drilling and spacing units or proration units governing the pooling of natural gas and oil properties. Some states allow forced pooling or integration of tracts to facilitate exploitation while other states rely on voluntary pooling of lands and leases. In some instances, forced pooling or unitization may be implemented by third parties and may reduce our interest in the unitized properties. In addition, state conservation laws establish maximum rates of production from natural gas and oil wells, generally prohibit the venting or flaring of natural gas and impose requirements regarding the ratability of production. These laws and regulations may limit the amount of natural gas and oil we can produce from its wells or limit the number of wells or the locations at which we can drill. Moreover, each state generally imposes a production or severance tax or impact fee with respect to the production and sale of oil, natural gas and natural gas liquids within its jurisdiction.

State Regulation and Taxation of Drilling. The various states regulate the drilling for, and the production, gathering and sale of, natural gas, including imposing severance taxes and requirements for obtaining drilling permits. For example, Michigan imposes a 5% severance tax on natural gas and a 6.6% severance tax on oil, Tennessee imposes a 3% severance tax on natural gas and oil production and Ohio imposes a severance tax of $0.025 per Mcf of natural gas and $0.10 per Bbl of oil, Indiana imposes a severance tax of $0.03 per Mcf on natural gas and $0.24 per Bbl of oil, Colorado imposes a severance tax up to 5% of the value of oil and gas severed from earth, in addition to other applicable taxes, while West Virginia imposes a 5% severance tax on oil and gas. Pennsylvania has imposed an impact fee on wells drilled into an unconventional formation, which includes the Marcellus Shale. The impact fee, which changes from year to year, is based on the average annual price of natural gas as determined by the NYMEX price, as reported by the Wall Street Journal for the last trading day of each calendar month. For example, based upon natural gas prices for 2012, the impact fee for qualifying unconventional horizontal wells spudded during 2012 was $45,000 per well, while the impact fee for unconventional vertical wells was reduced to twenty percent of the horizontal well fee. The payment structure for the impact fee makes the fee due the year after an unconventional well is spudded, and the fee will continue for 15 years for a horizontal well and 10 years for a vertical well. States also regulate the method of developing new fields, the spacing and operation of wells and the prevention of waste of natural gas resources. States may regulate rates of production and may establish maximum limits on daily production allowable from natural gas wells based on market demand or resource conservation, or both. States do not regulate wellhead prices or engage in other similar direct economic regulation, but there can be no assurance that they will not do so in the future. The effect of these regulations may be to limit the amounts of natural gas that may be produced from our wells, the type of wells that may be drilled in the future in proximity to existing wells and to limit the number of wells or locations from which we can drill. Texas imposes a 7.5% tax on the market value of natural gas sold, 4.6% on the market value of condensate and a fee of $0.000667 per Mcf of gas produced. Oklahoma imposes a gross production tax of 7% per Bbl of oil, 7% per Mcf of natural gas and a petroleum excise tax of $0.095 on the gross production of oil and gas. Texas imposes a severance tax of 7.5% on the market value of gas produced and saved and 4.6% on the market value of condensate and oil produced.

The petroleum industry is also subject to compliance with various other federal, state and local regulations and laws. Some of those laws relate to occupational safety, resource conservation and equal employment opportunity. We do not believe that compliance with these laws will have a material adverse effect upon our unitholders.

Oil Spills and Hydraulic Fracturing. The Oil Pollution Act of 1990, as amended, (OPA), contains numerous requirements relating to the prevention of and response to oil spills into waters of the United States. The OPA subjects

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owners of facilities to strict, joint and several liability for all containment and cleanup costs and certain other damages arising from a spill, including, but not limited to, the costs of responding to a release of oil to surface waters. While we believe we have been in compliance with OPA, noncompliance could result in varying civil and criminal penalties and liabilities.

A number of federal agencies, including but not limited to the EPA and the Department of Interior, are currently evaluating a variety of environmental issues related to hydraulic fracturing. For example, EPA is conducting a study that evaluates any potential impacts of hydraulic fracturing on drinking water and ground water. EPA released a progress report on this study on December 21, 2012 that did not present any conclusions, but notes that results will be released in draft form in late 2014 for review by the public and the EPA Science Advisory Board.

In addition, state, local conservancy districts and river basin commissions have all previously exercised their various regulatory powers to curtail and, in some cases, place moratoriums on hydraulic fracturing. State regulations include express inclusion of hydraulic fracturing into existing regulations covering other aspects of exploration and production and specifically may include, but not be limited to, the following:

- requirement that logs and pressure test results are included in disclosures to state authorities;
- disclosure of hydraulic fracturing fluids and chemicals, and the ratios of same used in operations;
- specific disposal regimens for hydraulic fracturing fluids;
- replacement/remediation of contaminated water assets; and
- minimum depth of hydraulic fracturing.

Local regulations, which may be preempted by state and federal regulations, have included the following which may extend to all operations including those beyond hydraulic fracturing:

- noise control ordinances;
- traffic control ordinances;
- limitations on the hours of operations; and
- mandatory reporting of accidents, spills and pressure test failures.

Employees

We do not directly employ any of the persons responsible for our management or operation. In general, personnel employed by Atlas Energy manage and operate our business. Approximately 482 Atlas Energy employees provide direct support to our operations. Some of the officers of our general partner may spend a substantial amount of time managing the business and affairs of Atlas Energy and its affiliates other than us and may face a conflict regarding the allocation of their time between our business and affairs and their other business interests.

Available Information

We make our periodic reports under the Securities Exchange Act of 1934, including our annual report on Form 10-K, our quarterly reports on Form 10-Q, our current reports on Form 8-K, and any amendments to those reports, available through our website at www.atlasresourcepartners.com as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission (SEC). To view these reports, click on Investor Relations , then SEC Filings . You may also receive, without charge, a paper copy of any such filings by request to us at Park Place Corporate Center One, 1000 Commerce Drive, Suite 400, Pittsburgh, Pennsylvania 15275, telephone number (800) 251-0171. A complete list of our filings is available on the SEC s website at www.sec.gov. Any of our filings are also available at the SEC s Public Reference Room at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. The Public Reference Room may be contacted at telephone number (800) 732-0330 for further information.

ITEM 1A: RISK FACTORS

You should carefully consider each of the following risks, which we believe are the principal risks that we face and of which we are currently aware, and all of the other information in this report. Some of the risks described below relate to our business, while others relate principally to the securities markets and ownership of our limited partnership interests.

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Partnership interests are inherently different from the capital stock of a corporation, although many of the business risks to which we are subject are similar to those that would be faced by a corporation engaged in a similar business. If any of the following risks were actually to occur, our business, financial condition or results of operations could be materially adversely affected.

Risks Relating to Our Business

If commodity prices decline significantly, our cash flow from operations will decline.

Our revenue, profitability and cash flow substantially depend upon the prices and demand for natural gas and oil. The natural gas and oil markets are very volatile, and a drop in prices can significantly affect our financial results and impede our growth. Changes in natural gas and oil prices will have a significant impact on the value of our reserves and on our cash flow. Prices for natural gas and oil may fluctuate widely in response to relatively minor changes in the supply of and demand for natural gas or oil, market uncertainty and a variety of additional factors that are beyond our control, such as:

- the level of domestic and foreign supply and demand;
- the price and level of foreign imports;
- the level of consumer product demand;
- weather conditions and fluctuating and seasonal demand;
- overall domestic and global economic conditions;
- political and economic conditions in natural gas and oil producing countries, including those in the Middle East and South America;
- the ability of members of the Organization of Petroleum Exporting Countries to agree to and maintain oil price and production controls;
- the impact of the U.S. dollar exchange rates on natural gas and oil prices;
- technological advances affecting energy consumption;
- domestic and foreign governmental relations, regulations and taxation;
- the impact of energy conservation efforts;
- the cost, proximity and capacity of natural gas pipelines and other transportation facilities; and

the price and availability of alternative fuels.

In the past, the prices of natural gas and oil have been extremely volatile, and we expect this volatility to continue. For example, during the year ended December 31, 2012, the NYMEX Henry Hub natural gas index price ranged from a high of $3.90 per MMBtu to a low of $1.91 per MMBtu, and West Texas Intermediate oil prices ranged from a high of $109.77 per Bbl to a low of $77.69 per Bbl. Between January 1, 2013 and February 25, 2013, the NYMEX Henry Hub natural gas index price ranged from a high of $3.57 per MMBtu to a low of $3.11 per MMBtu, and West Texas Intermediate oil prices ranged from a high of $97.94 per Bbl to a low of $92.84 per Bbl.

Competition in the natural gas and oil industry is intense, which may hinder our ability to acquire natural gas and oil properties and companies and to obtain capital, contract for drilling equipment and secure trained personnel.

We operate in a highly competitive environment for acquiring properties and other natural gas and oil companies, attracting capital through our investment partnerships, contracting for drilling equipment and securing trained personnel. Our competitors may be able to pay more for natural gas and oil properties and drilling equipment and to evaluate, bid for and purchase a greater number of properties than our financial or personnel resources permit. Moreover, our competitors for

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investment capital may have better track records in their programs, lower costs or stronger relationships with participants in the oil and gas investment community than we do. All of these challenges could make it more difficult for us to execute our growth strategy. We may not be able to compete successfully in the future in acquiring leasehold acreage or prospective reserves or in raising additional capital.

Furthermore, competition arises not only from numerous domestic and foreign sources of natural gas and oil but also from other industries that supply alternative sources of energy. Competition is intense for the acquisition of leases considered favorable for the development of natural gas and oil in commercial quantities. Product availability and price are the principal means of competition in selling natural gas and oil. Many of our competitors possess greater financial and other resources than we do, which may enable them to identify and acquire desirable properties and market their natural gas and oil production more effectively than we can.

Shortages of drilling rigs, equipment and crews, or the costs required to obtain the foregoing in a highly competitive environment, could impair our operations and results.

Increased demand for drilling rigs, equipment and crews, due to increased activity by participants in our primary operating areas or otherwise, can lead to shortages of, and increasing costs for, drilling equipment, services and personnel. Shortages of, or increasing costs for, experienced drilling crews and oil field equipment and services could restrict our ability to drill the wells and conduct the operations that we currently have planned. Any delay in the drilling of new wells or significant increase in drilling costs could reduce our revenues.

Many of our leases are in areas that have been partially depleted or drained by offset wells.

Our key project areas are located in active drilling areas in the Appalachian Basin, and many of our leases are in areas that have already been partially depleted or drained by earlier offset drilling. This may inhibit our ability to find economically recoverable quantities of natural gas in these areas.

Our operations require substantial capital expenditures to increase our asset base. If we are unable to obtain needed capital or financing on satisfactory terms, our asset base will decline, which could cause our revenues to decline and affect our ability to pay distributions.

The natural gas and oil industry is capital intensive. If we are unable to obtain sufficient capital funds on satisfactory terms with capital raised through equity and debt offerings, cash flow from operations, bank borrowings and the investment partnerships, we may be unable to increase or maintain our inventory of properties and reserve base, or be forced to curtail drilling or other activities. This could cause our revenues to decline and diminish our ability to service any debt that we may have at such time. If we do not make sufficient or effective expansion capital expenditures, including with funds from third-party sources, we will be unable to expand our business operations, and may not generate sufficient revenue or have sufficient available cash to pay distributions on our units.

Our cash distribution policy limits our ability to grow.

Because we distribute our available cash rather than reinvesting it in our business, our growth may not be as significant as businesses that reinvest their available cash to expand ongoing operations. If we issue additional common units or incur debt to fund acquisitions and expansion and investment capital expenditures, the payment of distributions on those additional units or interest on that debt could increase the risk that we will be unable to maintain or increase our per unit distribution level. There are no limitations in our partnership agreement on our ability to issue additional units, including units ranking senior to the common units.

Significant physical effects of climatic change have the potential to damage our facilities, disrupt our production activities and cause us to incur significant costs in preparing for or responding to those effects.

Climate change could have an effect on the severity of weather (including hurricanes and floods), sea levels, the arability of farmland, and water availability and quality. If such effects were to occur, our exploration and production operations have the potential to be adversely affected. Potential adverse effects could include damages to our facilities from powerful winds or rising waters in low lying areas, disruption of our production activities either because of climate-related damages to our facilities or our costs of operation potentially rising from such climatic effects, less efficient or non-routine operating practices necessitated by climate effects or increased costs for insurance coverage in the aftermath of such effects. Significant physical effects of climate change could also have an indirect effect on our financing and operations by disrupting the transportation or process-related services provided by midstream companies, service companies or suppliers with whom we have a business relationship. We may not be able to recover through insurance some or any of the damages, losses or costs that may result from potential physical effects of climate change.

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We depend on certain key customers for sales of our natural gas, crude oil and natural gas liquids. To the extent these customers reduce the volumes of natural gas, crude oil and natural gas liquids they purchase from us, or cease to purchase natural gas, crude oil and natural gas liquids from us, our revenues and cash available for distribution could decline.

We market the majority of our natural gas production to gas utility companies, gas marketers, local distribution companies and industrial or other end-users. Crude oil produced from our wells flow directly into leasehold storage tanks where it is picked up by an oil company or a common carrier acting for an oil company. Natural gas liquids are extracted from the natural gas stream by processing and fractionation plants enabling the remaining dry gas (low Btu content) to meet pipeline specifications for transport to end users or marketers operating on the receiving pipeline. For the year ended December 31, 2012, Chevron and Atmos Energy Marketing, LLC accounted for approximately 43% and 11% of our total natural gas, crude oil and natural gas liquids production revenue, respectively, with no other single customer accounting for more than 10% for this period. To the extent these and other key customers reduce the amount of natural gas, crude oil and natural gas liquids they purchase from us, our revenues and cash available for distributions to unit holders could temporarily decline in the event we are unable to sell to additional purchasers.

An increase in the differential between the NYMEX or other benchmark prices of oil and natural gas and the wellhead price that we receive for our production could significantly reduce our cash available for distribution and adversely affect our financial condition.

The prices that we receive for our oil and natural gas production sometimes reflect a discount to the relevant benchmark prices, such as NYMEX. The difference between the benchmark price and the price that we receive is called a differential. Increases in the differential between the benchmark prices for oil and natural gas and the wellhead price that we receive could significantly reduce our cash available for distribution to our unitholders and adversely affect our financial condition. We use the relevant benchmark price to calculate our hedge positions, and we do not have or plan to have any commodity derivative contracts covering the amount of the basis differentials we experience in respect of our production. As such, we will be exposed to any increase in such differentials, which could adversely affect our results of operations.

Some of our undeveloped leasehold acreage is subject to leases that may expire in the near future.

As of December 31, 2012, leases covering approximately 49,786 of our 321,642 net undeveloped acres, or 15.5%, are scheduled to expire on or before December 31, 2013. An additional 10% are scheduled to expire in each of the years 2014 and 2015. If we are unable to renew these leases or any leases scheduled for expiration beyond their expiration date, on favorable terms, we will lose the right to develop the acreage that is covered by an expired lease, which would reduce our cash flows from operations.

Drilling for and producing natural gas are high-risk activities with many uncertainties.

Our drilling activities are subject to many risks, including the risk that we will not discover commercially productive reservoirs. Drilling for natural gas can be uneconomic, not only from dry holes, but also from productive wells that do not produce sufficient revenues to be commercially viable. In addition, our drilling and producing operations may be curtailed, delayed or canceled as a result of other factors, including:

- the high cost, shortages or delivery delays of equipment and services;
- unexpected operational events and drilling conditions;
- adverse weather conditions;
- facility or equipment malfunctions;
- title problems;

pipeline ruptures or spills;

compliance with environmental and other governmental requirements;

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- unusual or unexpected geological formations;
- formations with abnormal pressures;
- injury or loss of life;
- environmental accidents such as gas leaks, ruptures or discharges of toxic gases, brine or well fluids into the environment or oil leaks, including groundwater contamination;
- fires, blowouts, craterings and explosions; and
- uncontrollable flows of natural gas or well fluids.

Any one or more of the factors discussed above could reduce or delay our receipt of drilling and production revenues, thereby reducing our earnings, and could reduce revenues in one or more of our investment partnerships, which may make it more difficult to finance our drilling operations through sponsorship of future partnerships. In addition, any of these events can cause substantial losses, including personal injury or loss of life, damage to or destruction of property, natural resources and equipment, pollution, environmental contamination, loss of wells and regulatory penalties.

Although we maintain insurance against various losses and liabilities arising from our operations, insurance against all operational risks are not available to us. Additionally, we may elect not to obtain insurance if we believe that the cost of available insurance is excessive relative to the perceived risks presented. Losses could, therefore, occur for uninsurable or uninsured risks or in amounts in excess of existing insurance coverage. The occurrence of an event that is not fully covered by insurance could reduce our results of operations.

Unless we replace our oil and natural gas reserves, our reserves and production will decline, which would reduce our cash flow from operations and income.

Producing natural gas reservoirs generally are characterized by declining production rates that vary depending upon reservoir characteristics and other factors. Our natural gas reserves and production and, therefore, our cash flow and income are highly dependent on our success in efficiently developing and exploiting our reserves and economically finding or acquiring additional recoverable reserves. Our ability to find and acquire additional recoverable reserves to replace current and future production at acceptable costs depends on our generating sufficient cash flow from operations and other sources of capital, principally from the sponsorship of new investment partnerships, all of which are subject to the risks discussed elsewhere in this section.

A decrease in natural gas prices could subject our oil and gas properties to a non-cash impairment loss under U.S. generally accepted accounting principles.

U.S. generally accepted accounting principles require oil and gas properties and other long-lived assets to be reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. Long-lived assets are reviewed for potential impairments at the lowest levels for which there are identifiable cash flows that are largely independent of other groups of assets. We test our oil and gas properties on a field-by-field basis, by determining if the historical cost of proved properties less the applicable depletion, depreciation and amortization and abandonment is less than the estimated expected undiscounted future cash flows. The expected future cash flows are estimated based on our economic interests and our plans to continue to produce and develop proved reserves. Expected future cash flow from the sale of production of reserves is calculated based on estimated future prices. We estimate prices based on current contracts in place at the impairment testing date, adjusted for basis differentials and market related information, including published future prices. The estimated future level of production is based on assumptions surrounding future levels of prices and costs, field decline rates, market demand and supply, and the economic and regulatory climates. Accordingly, further declines in the price of natural gas may cause the carrying value of our oil and gas properties to exceed the expected future cash flows, and a non-cash impairment loss would be required to be recognized in the financial statements for the difference between the estimated fair market value (as determined by discounted future cash flows) and the carrying value of the assets.

Hedging transactions may limit our potential gains or cause us to lose money.

Pricing for natural gas and oil has been volatile and unpredictable for many years. To limit exposure to changing natural gas and oil prices, we use financial hedges for our production which may include purchases of regulated NYMEX

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futures and options contracts and non-regulated over-the-counter futures contracts with qualified counterparties. The futures contracts are commitments to purchase or sell natural gas at future dates and generally cover one-month periods for up to six years in the future.

These hedging arrangements may reduce, but will not eliminate, the potential effects of changing commodity prices on our cash flow from operations for the periods covered by these arrangements. Furthermore, while intended to help reduce the effects of volatile commodity prices, such transactions, depending on the hedging instrument used, may limit our potential gains if commodity prices were to rise substantially over the price established by the hedge. If, among other circumstances, production is substantially less than expected, the counterparties to our futures contracts fail to perform under the contracts or a sudden, unexpected event materially changes commodity prices, we may be exposed to the risk of financial loss. In addition, it is not always possible for us to engage in a derivative transaction that completely mitigates our exposure to commodity prices and interest rates. Our financial statements may reflect a gain or loss arising from an exposure to commodity prices and interest rates for which we are unable to enter into a completely effective hedge transaction.

Due to the accounting treatment of derivative contracts, increases in prices for natural gas, crude oil and NGLs could result in non-cash balance sheet reductions and non-cash losses in our statement of operations.

We account for our derivative contracts by applying the mark-to-market accounting treatment required for these derivative contracts. We could recognize incremental derivative liabilities between reporting periods resulting from increases or decreases in reference prices for natural gas, crude oil and NGLs, which could result in us recognizing a non-cash loss in our combined statements of operations and a consequent non-cash decrease in our equity between reporting periods. Any such decrease could be substantial. In addition, we may be required to make cash payments upon the termination of any of these derivative contracts.

Regulations promulgated by the Commodities Futures Trading Commission could have an adverse effect on our ability to use derivative instruments to reduce the effect of commodity price, interest rate and other risks associated with our business.

The Dodd-Frank Wall Street Reform and Consumer Protection Act is intended to change fundamentally the way swap transactions are entered into, transforming an over-the-counter market in which parties negotiate directly with each other into a regulated market in which most swaps are to be executed on registered exchanges or swap execution facilities and cleared through central counterparties. These statutory requirements must be implemented through regulation, primarily through rules to be adopted by the Commodities Futures Trading Commission (CFTC). Many market participants will be newly regulated as swap dealers or major swap participants, with new regulatory capital requirements and other regulations that impose business conduct rules and mandate how they hold collateral or margin for swap transactions. All market participants will be subject to new reporting and recordkeeping requirements. The new regulations may require us to comply with margin requirements and with certain clearing and trade-execution requirements in connection with our existing or future derivative activities. As a commercial end-user which uses swaps to hedge or mitigate commercial risk, rather than for speculative purposes, we are permitted to opt out of the clearing and exchange trading requirements. However, we could be exposed to greater liquidity and credit risk with respect to our hedging transactions if we do not use cleared and exchange-traded swaps. Counterparties to our derivative instruments which are federally insured depository institutions are required to spin off some of their derivatives activities to separate entities, which may not be as creditworthy as the current counterparties. The new regulations could significantly increase the cost of derivative contracts; materially alter the terms of derivative contracts; reduce the availability of derivatives to protect against risks we encounter; reduce our ability to monetize or restructure our derivative contracts in existence at that time; and increase our exposure to less creditworthy counterparties. If we reduce or change the way we use derivative instruments as a result of the legislation or regulations, our results of operations may become more volatile and cash flows may be less predictable, which could adversely affect our ability to plan for and fund capital expenditures. Finally, the legislation was intended, in part, to reduce the volatility of oil and natural gas prices, which some legislators attributed to speculative trading in derivatives and commodity instruments related to oil and natural gas. Our revenues could therefore be adversely affected if a consequence of the legislation and regulations is to lower commodity prices. Any of these consequences could have a material adverse effect on our combined financial position, results of operations and/or cash flows.

The scope and costs of the risks involved in making acquisitions may prove greater than estimated at the time of the acquisition.

Any acquisition involves potential risks, including, among other things:

- the validity of our assumptions about reserves, future production, revenues, capital expenditures and operating costs;

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- an inability to successfully integrate the businesses we acquire;
- a decrease in our liquidity by using a portion of our available cash or borrowing capacity under our revolving credit facility to finance acquisitions;
- a significant increase in our interest expense or financial leverage if we incur additional debt to finance acquisitions;
- the assumption of unknown environmental and other liabilities, losses or costs for which we are not indemnified or for which our indemnity is inadequate;
- the diversion of management s attention from other business concerns and increased demand on existing personnel;
- the incurrence of other significant charges, such as impairment of oil and natural gas properties, goodwill or other intangible assets, asset devaluation or restructuring charges;
- unforeseen difficulties encountered in operating in new geographic areas; and
- customer or key employee losses at the acquired businesses.

The scope and cost of these risks may be materially greater than estimated at the time of the acquisition. Any of these factors could adversely affect our future growth.

We may be unsuccessful in integrating the operations from any future acquisitions with our operations and in realizing all of the anticipated benefits of these acquisitions.

The integration of previously independent operations can be a complex, costly and time-consuming process. The difficulties of combining these systems, as well as any operations we may acquire in the future, include, among other things:

- operating a significantly larger combined entity;
- the necessity of coordinating geographically disparate organizations, systems and facilities;
- integrating personnel with diverse business backgrounds and organizational cultures;
- consolidating operational and administrative functions;
- integrating internal controls, compliance under Sarbanes-Oxley Act of 2002 and other corporate governance matters;
- the diversion of management s attention from other business concerns;

- customer or key employee loss from the acquired businesses;
- a significant increase in our indebtedness; and
- potential environmental or regulatory liabilities and title problems.

Costs incurred and liabilities assumed in connection with an acquisition and increased capital expenditures and overhead costs incurred to expand our operations could harm our business or future prospects, and result in significant decreases in our gross margin and cash flows.

Properties that we acquired in the separation from Atlas Energy or afterward may not produce as projected and we may be unable to determine reserve potential, identify liabilities associated with the properties or obtain protection from sellers against such liabilities.

One of our growth strategies is to capitalize on opportunistic acquisitions of natural gas reserves. However, reviews of acquired properties are often incomplete because it generally is not feasible to review in depth every individual property involved in each acquisition. A detailed review of records and properties also may not necessarily reveal existing or potential problems, and may not permit a buyer to become sufficiently familiar with the properties to assess fully their deficiencies and potential. Inspections may not always be performed on every well that we acquire. Potential problems, such as deficiencies in the mechanical integrity of equipment or environmental conditions that may require significant remedial expenditures, are not necessarily observable even when we inspect a well. Any unidentified problems could result in material liabilities and costs that negatively affect our financial condition and results of operations.

Even if we are able to identify problems with an acquisition, the seller may be unwilling or unable to provide effective contractual protection or indemnity against all or part of these problems. Even if a seller agrees to provide indemnity, the indemnity may not be fully enforceable and may be limited by floors and caps on such indemnity.

Our 2012 acquisitions may prove to be worth less than we paid, or provide less than anticipated proved reserves, because of uncertainties in evaluating recoverable reserves, well performance, and potential liabilities as well as uncertainties in forecasting oil and natural gas prices and future development, production and marketing costs.

Successful acquisitions require an assessment of a number of factors, including estimates of recoverable reserves, development potential, well performance, future oil and natural gas prices, operating costs and potential environmental and other liabilities. Our estimates of future reserves and estimates of future production for our 2012 acquisitions are initially based on detailed information furnished by the sellers and subject to review, analysis and adjustment by our internal staff, typically without consulting independent petroleum engineers. Such assessments are inexact and their accuracy is inherently uncertain; our proved reserves estimates may thus exceed actual acquired proved reserves. In connection with our assessments, we perform a review of the acquired properties that we believe is generally consistent with industry practices. However, such a review will not reveal all existing or potential problems. In addition, our review may not permit us to become sufficiently familiar with the properties to fully assess their deficiencies and capabilities. We do not inspect every well. Even when we inspect a well, we do not always discover structural, subsurface and environmental problems that may exist or arise. As a result of these factors, the purchase price we pay to acquire oil and natural gas properties may exceed the value we realize.

Also, our reviews of the properties included in the 2012 acquisitions are inherently incomplete because it is generally not feasible to perform an in-depth review of the individual properties involved in each acquisition given the time constraints imposed by the applicable acquisition agreement. Even a detailed review of records and properties may not necessarily reveal existing or potential problems, nor will it permit a buyer to become sufficiently familiar with the properties to fully assess their deficiencies and potential.

We may not identify all risks associated with the acquisition of oil and natural gas properties, or existing wells, and any indemnifications we receive from sellers may be insufficient to protect us from such risks, which may result in unexpected liabilities and costs to us.

Our business strategy focuses on acquisitions of undeveloped oil and natural gas properties that we believe are capable of production. We may make additional acquisitions of undeveloped oil and gas properties from time to time, subject to available resources. Any future acquisitions will require an assessment of recoverable reserves, title, future oil and natural gas prices, operating costs, potential environmental hazards, potential tax and other liabilities and other factors. Generally, it is not feasible for us to review in detail every individual property involved in a potential acquisition. In making acquisitions, we generally focus most of our title, environmental and valuation efforts on the properties that we believe to be more significant, or of higher-value. Even a detailed review of properties and records may not reveal all existing or potential problems, nor would it permit us to become sufficiently familiar with the properties to assess fully their deficiencies and capabilities. In addition, we do not inspect in detail every well that we acquire. Potential problems, such as deficiencies in the mechanical integrity of equipment or environmental conditions that may require significant remedial expenditures, are not necessarily observable even when we perform a detailed inspection. Any unidentified problems could result in material liabilities and costs that negatively impact our financial condition and results of operations.

Even if we are able to identify problems with an acquisition, the seller may be unwilling or unable to provide effective contractual protection or indemnity against all or part of these problems. Even if a seller agrees to provide indemnity, the indemnity may not be fully enforceable or may be limited by floors and caps, and the financial wherewithal of such seller may significantly limit our ability to recover our costs and expenses. Any limitation on our ability to recover the costs related any potential problem could materially impact our financial condition and results of operations.

Ownership of our oil and gas production depends on good title to our property.

Good and clear title to our oil and gas properties is important. Although we will generally conduct title reviews before the purchase of most oil, gas and mineral producing properties or the commencement of drilling wells, such reviews do not assure that an unforeseen defect in the chain of title will not arise to defeat our claim, which could result in a reduction or elimination of the revenue received by us from such properties.

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Federal legislation and state legislative and regulatory initiatives relating to hydraulic fracturing could result in increased costs and additional operating restrictions or delays.

Hydraulic fracturing is used to stimulate production of hydrocarbons, particularly natural gas, from tight formations. The process involves the injection of water, sand and chemicals under pressure into formations to fracture the surrounding rock and stimulate production. The process is typically regulated by state oil and natural gas commissions or by state environmental agencies.

Some states have adopted, and other states are considering adopting, regulations that could restrict hydraulic fracturing in certain circumstances. For example:

New York has imposed a *de facto* moratorium on the issuance of permits for high volume, horizontal hydraulic fracturing until state administered environmental studies are finalized. The New York Department of Environmental Conservation (NYDEC) accepted comments on its revised proposal to amend state regulations to address high-volume hydraulic fracturing through January 11, 2013. Final Regulations have not yet been issued. In October 2012, NYDEC asked the New York Health Department to assess the health impacts of high volume hydraulic fracturing. The Health Department has not completed its assessment. NYDEC is not expected to take any final action or make any decision regarding hydraulic fracturing until after the health review is completed and NYDEC, through the environmental impact statement, is satisfied that hydraulic fracturing can be done safely in New York State.

Pennsylvania has adopted a variety of regulations limiting how and where fracturing can be performed. In February 2012, legislation was passed in Pennsylvania requiring, among other things, disclosure of chemicals used in hydraulic fracturing. To implement the new legislative requirements, in August of 2012 the Pennsylvania Department of Environmental Protection issued proposed conceptual changes to its environmental regulations governing oil and gas operations. The conceptual changes would include requiring secondary containment for tanks associated with hydraulic fracturing and the submission of increased water withdrawal information necessary to secure required Water Management Plans.

In June 2012, Ohio passed legislation that made several significant amendments to the state s oil and gas law, including additional permitting requirements, chemical disclosure requirements, and site investigation requirements for horizontal wells.

In September 2012, the Texas Railroad Commission approved new proposed regulations relating to the commercial recycling of produced water and/or hydraulic fracturing flowback fluid.

In June 2012, the West Virginia Department of Environmental Protection introduced a proposed legislative rule titled Rules Governing Horizontal Well Development, which imposes more stringent regulation of horizontal drilling. The proposed rule was developed to provide further direction in the implementation and administration of the Natural Gas Horizontal Well Control Act that became effective on December 14, 2011.

In addition to state law, local land use restrictions, such as city ordinances, may restrict or prohibit the performance of well drilling in general and/or hydraulic fracturing in particular. If state, local, or municipal legal restrictions are adopted in areas where we are currently conducting, or in the future plan to conduct, operations, we may incur additional costs to comply with such requirements that may be significant in nature, experience delays or curtailment in the pursuit of exploration, development, or production activities, and perhaps even be precluded from the drilling of wells. Generally, Federal, state and local restrictions and requirements are applied consistently to similar types of producers (e.g., conventional, unconventional, etc.), regardless of size of the producing company.

Although, to date, the hydraulic fracturing process has not generally been subject to regulation at the federal level, there are certain governmental reviews either under way or being proposed that focus on environmental aspects of hydraulic fracturing practices, and some federal regulation has taken place. A few of these initiatives are listed here, although others may exist now or be implemented in the future. In April 2012, President Obama established an Interagency Working Group to Support Safe and Responsible Development of Unconventional Domestic Natural Gas Resources with the purpose of coordinating the policies and activities of agencies regarding unconventional gas development. The EPA has asserted federal regulatory authority over certain hydraulic fracturing activities involving diesel fuel as an additive under the Safe Drinking Water Act. In May 2012, the EPA issued draft permitting guidance for oil and gas hydraulic fracturing activities using diesel fuel. After reviewing comments submitted on the draft guidance in September 2012, the EPA is considering withdrawing the draft guidance and reissuing the policies contained therein as a proposed rulemaking. In addition, legislation that would provide for increased federal regulation of hydraulic fracturing and require disclosure of the chemicals used in the hydraulic fracturing process could be introduced in the future. Furthermore, a number of federal agencies are analyzing, or have been requested to review, a variety of environmental issues associated with hydraulic fracturing. For example, the EPA is currently studying the potential environmental effects of hydraulic fracturing on drinking water and groundwater. The EPA issued a progress report regarding the hydraulic fracturing study on December 21, 2012. However, the progress report did not provide any results or conclusions. Research results are expected to be released in draft form in late 2014 for review by the public and the EPA Science Advisory Board. The EPA has not provided an anticipated date for completion of the report after peer review. The EPA is also proposing to issue a draft criteria document updating the water quality criteria for chloride in early 2013, and a proposed rule regarding effluent limitation guidelines for natural gas extraction from shale gas in 2014. On May 4, 2012, the U.S. Department of the Interior, Bureau of Land Management proposed a rule that includes provisions requiring disclosure of chemicals used in hydraulic fracturing and construction standards for hydraulic fracturing on federal lands.

Certain members of U.S. Congress have called upon the U.S. Government Accountability Office to investigate how hydraulic fracturing might adversely affect water resources, and Congress has asked the SEC to investigate the natural gas industry and any possible misleading of investors or the public regarding the economic feasibility of pursuing natural gas deposits in shales by means of hydraulic fracturing. In addition, Congress requested the U.S. Energy Information Administration to provide a better understanding of that agency s estimates regarding natural gas reserves, including reserves from shale formations, as well as uncertainties associated with those estimates. These ongoing or proposed studies, depending on their degree of pursuit and any meaningful results obtained, could result in initiatives to further regulate hydraulic fracturing under the Safe Drinking Water Act or one or more other regulatory mechanisms. If new laws or regulations that significantly restrict hydraulic fracturing are adopted at the state and local level, such laws could make it more difficult or costly for us to perform hydraulic fracturing to stimulate production from dense subsurface rock formations and, in the event of local prohibitions against commercial production of natural gas, may preclude our ability to drill wells. In addition, if hydraulic fracturing becomes regulated at the federal level as a result of federal legislation or regulatory initiatives by the EPA or other federal agencies, our fracturing activities could be significantly affected. Some of the potential effects of changes in Federal, state or local regulation of hydraulic fracturing operations could include, but are not limited to, the following: additional permitting requirements, permitting delays, increased costs, changes in the way operations, drilling and/or completion must be conducted, increased recordkeeping and reporting, and restrictions on the types of additives that can be used, among other potential effects that are not listed here. Restrictions on hydraulic fracturing could also reduce the amount of oil and natural gas that we are ultimately able to produce from our reserves.

Recently promulgated rules regulating air emissions from oil and natural gas operations could cause us to incur increased capital expenditures and operating costs.

In August 2012, the EPA published final rules that establish new air emission controls for oil and natural gas production and natural gas processing operations. Specifically, the EPA s rule package includes New Source Performance Standards, which we refer to as the NSPS, to address emissions of sulfur dioxide and volatile organic compounds, and a separate set of emission standards to address hazardous air pollutants frequently associated with oil and natural gas production and processing activities. The NSPS require operators, starting in 2015, to reduce VOC emissions from oil and natural gas production facilities by conducting green completions for hydraulic fracturing, that is, recovering rather than venting the gas and natural gas liquids that come to the surface during completion of the fracturing process. The NSPS also establish specific requirements regarding emissions from compressors, dehydrators, storage tanks, and other production equipment. In addition, effective in 2012, the rules establish new notification requirements before conducting hydraulic fracturing and more stringent leak detection requirements for natural gas processing plants. The NSPS became effective October 15, 2012 and will likely require a number of modifications to our operations, including the installation of new equipment. Compliance with the new rules could result in significant costs, including increased capital expenditures and operating costs, and could adversely impact our business.

States are also proposing more stringent requirements in air permits for well sites and compressor stations. For example, Pennsylvania has proposed to revise a list of sources exempt from air permitting requirements such that previously exempted types of sources associated with oil and gas exploration and production would be required to: (1) obtain an air permit or (2) satisfy specific requirements (emission limits, monitoring and recordkeeping) in order to claim the permit exemption. In conjunction with this proposal, Pennsylvania has finalized revisions to its General Permit for Natural Gas Production Facilities to impose additional and more stringent requirements and emission limits. Ohio is also considering revising its current General Permit for Natural Gas Production Operations to cover emissions from completion activities.

Climate change legislation or regulations restricting emissions of greenhouse gases could result in increased operating costs and reduced demand for our services.

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Both houses of U.S. Congress have actively considered legislation to reduce emissions of greenhouse gases, and almost half of the states have already taken legal measures to reduce emissions of greenhouse gases, primarily through the planned development of greenhouse gas emission inventories and/or regional greenhouse gas cap and trade programs. Most of these cap and trade programs work by requiring either major sources of emissions or major producers of fuels to acquire and surrender emission allowances, with the number of allowances available for purchase reduced each year until the overall greenhouse gas emission reduction goal is achieved. The adoption of any legislation or regulations that limits emissions of greenhouse gases from our equipment and operations could require us to incur costs to reduce emissions of greenhouse gases associated with our operations, and such requirements also could adversely affect demand for the oil and natural gas that we produce.

In response to findings that emissions of carbon dioxide, methane, and other greenhouse gases present a danger to public health and the environment because emissions of such gases are contributing to the warming of the earth s atmosphere and other climate changes, the EPA has adopted regulations under existing provisions of the Clean Air Act that require entities that produce certain gases to inventory, monitor and report such gases. On November 30, 2010, the EPA published a final greenhouse gas emissions reporting rule relating to natural gas processing, transmission, storage, and distribution activities, which required reporting by September 28, 2012 for emissions occurring in 2011. Additionally, in 2010, the EPA issued rules to regulate greenhouse gas emissions through traditional major source construction and operating permit programs. The EPA confirmed the permitting thresholds established in the 2010 rule in July 2012. These permitting programs require consideration of and, if deemed necessary, implementation of best available control technology to reduce greenhouse gas emissions. As a result, our operations could face additional costs for emissions control and higher costs of doing business.

The third parties on whom we rely for gathering and transportation services are subject to complex federal, state and other laws that could adversely affect the cost, manner or feasibility of conducting our business.

The operations of the third parties on whom we rely for gathering and transportation services are subject to complex and stringent laws and regulations that require obtaining and maintaining numerous permits, approvals and certifications from various federal, state and local government authorities. These third parties may incur substantial costs in order to comply with existing laws and regulation. If existing laws and regulations governing such third-party services are revised or reinterpreted, or if new laws and regulations become applicable to their operations, these changes may affect the costs that we pay for such services. Similarly, a failure to comply with such laws and regulations by the third parties on whom we rely could have a material adverse effect on our business, financial condition, results of operations and our ability to make distributions to our unitholders.

Our drilling and production operations require adequate sources of water to facilitate the fracturing process and the disposal of that water. If we are unable to dispose of the water we use or remove from the strata at a reasonable cost and within applicable environmental rules, our ability to produce gas commercially and in commercial quantities could be impaired.

A significant portion of our natural gas extraction activity utilizes hydraulic fracturing, which results in water that must be treated and disposed of in accordance with applicable regulatory requirements. Environmental regulations governing the withdrawal, storage and use of surface water or groundwater necessary for hydraulic fracturing may increase operating costs and cause delays, interruptions or termination of operations, the extent of which cannot be predicted, all of which could have an adverse effect on our operations and financial performance. For example, Pennsylvania requires the development of a Water Management Plan before hydraulically fracturing an unconventional well. The requirements of these plans continue to be modified by state laws and Pennsylvania Department of Environmental Protection (PADEP) policies. In June 2012, Ohio passed legislation that established a water withdrawal and consumptive use permit program in the Lake Erie watershed. If certain withdrawal thresholds are triggered due to our water needs for a particular project, we will be required to develop a Water Conservation Plan and obtain a withdrawal permit for that project.

Our ability to collect and dispose of water will affect our production, and potential increases in the cost of water treatment and disposal may affect our profitability. The imposition of new environmental initiatives and regulations could include restrictions on our ability to conduct hydraulic fracturing or disposal of produced water, drilling fluids and other substances associated with the exploration, development and production of gas and oil. For example, in July 2012, pursuant to an executive order by Governor Kasich, the Ohio Department of Natural Resources promulgated emergency amendments to the regulations governing disposal wells in Ohio. The emergency rules provide the Department with the authority to require certain testing as part of the process for obtaining a permit for the underground injection of produced water, and require all new disposal wells to be equipped with continuous pressure monitors and automatic shut off devices.

Impact fees and severance taxes could materially increase our liabilities.

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In an effort to offset budget deficits and fund state programs, many states have imposed impact fees and/or severance taxes on the natural gas industry. In February 2012, Pennsylvania implemented an impact fee for unconventional wells drilled in the Commonwealth. An unconventional gas well is a well that is drilled into an unconventional formation, which would include the Marcellus shale. The impact fee, which changes from year to year, is computed using the prior year s trailing 12 month NYMEX natural gas price and is based upon a tiered pricing matrix. For example, based upon natural gas prices for 2012, the impact fee for qualifying unconventional horizontal wells spudded during 2012 was $45,000 per well and the impact fee for unconventional vertical wells was reduced to twenty percent of the horizontal well fee. The impact fee is due by April 1 of the year following the year that a horizontal unconventional well is spudded or a vertical unconventional well is put into production. The fee will continue for 15 years for a horizontal unconventional well and 10 years for a vertical unconventional well. We estimate that the impact fee for our wells including the wells in our Drilling Partnerships will be in excess of $2 million for the year ended December 31, 2012.

Ohio Governor John Kasich has proposed a severance tax on gas, oil and natural gas liquids produced from high-volume producing formations that are recovered through hydraulic fracturing. Under the proposed tax plan, oil and natural gas liquids recovered through hydraulic fracturing in the Utica and Marcellus shales would be taxed at 1.5% of annual gross sales in the first year and 4% per year for each year thereafter. Natural gas would be taxed yearly at 1% of gross sales. The proposed plan also levies a $25,000 up front impact fee for each well drilled in the state.

President Obama s Fiscal Year 2013 Budget Proposal also includes provisions with significant tax consequences. If enacted, U.S. tax laws would be amended to eliminate the immediate deduction for intangible drilling and development costs and to eliminate the deduction from income for domestic production activities relating to oil and natural-gas exploration and development.

Because we handle natural gas and oil, we may incur significant costs and liabilities in the future resulting from a failure to comply with new or existing environmental regulations or an accidental release of substances into the environment.

How we plan, design, drill, install, operate and abandon natural gas wells and associated facilities are matters subject to stringent and complex federal, state and local environmental laws and regulations. These include, for example:

- The federal Clean Air Act and comparable state laws and regulations that impose obligations related to air emissions;
- The federal Clean Water Act and comparable state laws and regulations that impose obligations related to spills, releases, streams, wetlands and discharges of pollutants into regulated bodies of water;
- RCRA and comparable state laws that impose requirements for the handling and disposal of waste, including produced waters, from our facilities;
- CERCLA and comparable state laws that regulate the cleanup of hazardous substances that may have been released at properties currently or previously owned or operated by us or at locations to which we have sent waste for disposal; and
- Wildlife protection laws and regulations such as the Migratory Bird Treaty Act that requires operators to cover reserve pits during the cleanup phase of the pit, if the pit is open more than 90 days.

Complying with these requirements is expected to increase costs and prompt delays in natural gas production. There can be no assurance that we will be able to obtain all necessary permits and, if obtained, that the costs associated with obtaining such permits will not exceed those that previously had been estimated. It is possible that the costs and delays associated with compliance with such requirements could cause us to delay or abandon the further development of certain properties.

Failure to comply with these laws and regulations may trigger a variety of administrative, civil and criminal enforcement measures, including the assessment of monetary penalties, the imposition of remedial requirements and the issuance of orders enjoining future operations. These enforcement actions may be handled by the EPA and/or the appropriate state agency. In some cases, the EPA has taken a heightened role in oil and gas enforcement activities. For example, in 2011, EPA Region III requested the lead on all oil and gas related violations in the United States Army Corps of Engineers Pittsburgh District. We also understand that the EPA has taken an increased interest in assessing operator compliance with the Spill Prevention, Control and Countermeasures regulations, set forth at 40 CFR Part 112.

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Certain environmental statutes, including RCRA, CERCLA, the federal Oil Pollution Act and analogous state laws and regulations, impose strict, joint and several liability for costs required to clean up and restore sites where certain substances have been disposed of or otherwise released, whether caused by our operations, the past operations of our predecessors or third parties. Moreover, it is not uncommon for neighboring landowners and other third parties to file claims for personal injury and property damage allegedly caused by the release of hazardous substances or other waste products into the environment.

There is an inherent risk that we may incur environmental costs and liabilities due to the nature of our business and the substances we handle. For example, an accidental release from one of our wells could subject us to substantial liabilities arising from environmental cleanup and restoration costs, claims made by neighboring landowners and other third parties for personal injury and property damage, and fines or penalties for related violations of environmental laws or regulations. Moreover, the possibility exists that stricter laws, regulations or enforcement policies may be enacted or adopted and could significantly increase our compliance costs and the cost of any remediation that may become necessary. We may not be able to recover remediation costs under our respective insurance policies.

We are subject to comprehensive federal, state, local and other laws and regulations that could increase the cost and alter the manner or feasibility of us doing business.

Our operations are regulated extensively at the federal, state and local levels. The regulatory environment in which we operate includes, in some cases, legal requirements for obtaining environmental assessments, environmental impact studies and/or plans of development before commencing drilling and production activities. In addition, our activities will be subject to the regulations regarding conservation practices and protection of correlative rights. These regulations affect our operations and limit the quantity of natural gas we may produce and sell. A major risk inherent in our drilling plans is the need to obtain drilling permits from state and local authorities. Delays in obtaining regulatory approvals or drilling permits, the failure to obtain a drilling permit for a well or the receipt of a permit with unreasonable conditions or costs could inhibit our ability to develop our respective properties. Additionally, the natural gas and oil regulatory environment could change in ways that might substantially increase the financial and managerial costs of compliance with these laws and regulations and, consequently, reduce our profitability. For example, Pennsylvania s General Assembly approved legislation in February 2012 that imposes significant, costly requirements on the natural gas industry, including the imposition of increased bonding requirements and impact fees for gas wells, based on the price of natural gas and the age of the well. Draft regulations associated with this legislation have been released by the PADEP and, if finalized, will impact how natural gas operations are conducted in Pennsylvania. Similarly, West Virginia has proposed regulations associated with its existing Horizontal Well Control Act and is signaling that additional regulations are on the horizon. We may be put at a competitive disadvantage to larger companies in our industry that can spread these additional costs over a greater number of wells and these increased regulatory hurdles over a larger operating staff.

We may not be able to continue to raise funds through our investment partnerships at desired levels, which may in turn restrict our ability to maintain our drilling activity at recent levels.

We sponsor limited and general partnerships to finance certain of our development drilling activities. Accordingly, the amount of development activities that we will undertake depends in large part upon our ability to obtain investor subscriptions to invest in these partnerships. We raised $127.1 million in 2012 and before our separation from Atlas Energy, it raised $141.9 million in 2011 and $149.3 million in 2010. In the future, we may not be successful in raising funds thr