

Atlas Resource Partners, L.P.  
Form 10-Q  
August 09, 2013  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended June 30, 2013

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)

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<b>Delaware</b> (State or other jurisdiction of incorporation or organization)	<b>45-3591625</b> (I.R.S. Employer Identification No.)
<b>Park Place Corporate Center One</b> <b>1000 Commerce Drive, Suite 400</b> <b>Pittsburgh, Pennsylvania</b> (Address of principal executive office)	<b>15275</b> (Zip code)
<b>Registrant's telephone number, including area code: (800) 251-0171</b>	

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer  Accelerated filer

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

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

The number of outstanding common limited partner units of the registrant on August 5, 2013 was 59,439,284.

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**ATLAS RESOURCE PARTNERS, L.P.**

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**ON FORM 10-Q**

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**Table of Contents****PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****ATLAS RESOURCE PARTNERS, L.P.****CONSOLIDATED BALANCE SHEETS****(in thousands)****(Unaudited)**

	<b>June 30, 2013</b>	<b>December 31, 2012</b>
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 42,953	\$ 23,188
Accounts receivable	44,381	38,718
Current portion of derivative asset	35,575	12,274
Subscriptions receivable	11,036	55,357
Prepaid expenses and other	9,765	9,063
Total current assets	143,710	138,600
<b>Property, plant and equipment, net</b>	<b>1,413,109</b>	<b>1,302,228</b>
<b>Goodwill and intangible assets, net</b>	<b>32,940</b>	<b>33,104</b>
<b>Long-term derivative asset</b>	<b>12,168</b>	<b>8,898</b>
<b>Other assets, net</b>	<b>22,968</b>	<b>16,122</b>
	<b>\$ 1,624,895</b>	<b>\$ 1,498,952</b>
<b>LIABILITIES AND PARTNERS CAPITAL</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 57,708	\$ 59,549
Advances from affiliates		5,853
Liabilities associated with drilling contracts		67,293
Current portion of derivative liability	72	
Current portion of derivative payable to Drilling Partnerships	5,969	11,293
Accrued well drilling and completion costs	52,425	47,637
Accrued liabilities	22,615	25,388
Total current liabilities	138,789	217,013
<b>Long-term debt</b>	<b>275,000</b>	<b>351,425</b>
<b>Long-term derivative liability</b>	<b>130</b>	<b>888</b>
<b>Long-term derivative payable to Drilling Partnerships</b>	<b>38</b>	<b>2,429</b>
<b>Asset retirement obligations and other</b>	<b>68,173</b>	<b>65,191</b>
<b>Commitments and contingencies</b>		
<b>Partners Capital:</b>		
General partner's interest	6,788	7,029
Preferred limited partners' interests	96,385	96,155
Common limited partners' interests	1,003,274	737,253

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Accumulated other comprehensive income	36,318	21,569
Total partners' capital	1,142,765	862,006
	\$ 1,624,895	\$ 1,498,952

See accompanying notes to consolidated financial statements.

**Table of Contents****ATLAS RESOURCE PARTNERS, L.P.****CONSOLIDATED STATEMENTS OF OPERATIONS**

(in thousands, except per unit data)

(Unaudited)

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
<b>Revenues:</b>				
Gas and oil production	\$ 47,094	\$ 19,460	\$ 93,158	\$ 36,624
Well construction and completion	24,851	12,241	81,329	55,960
Gathering and processing	4,463	2,863	8,048	6,177
Administration and oversight	3,391	1,315	4,476	4,146
Well services	4,864	5,252	9,680	10,258
Other, net	(1,337)	(4,086)	(1,317)	(5,019)
<b>Total revenues</b>	<b>83,326</b>	<b>37,045</b>	<b>195,374</b>	<b>108,146</b>
<b>Costs and expenses:</b>				
Gas and oil production	19,035	4,447	34,251	8,952
Well construction and completion	21,609	10,606	70,721	48,301
Gathering and processing	4,959	3,953	9,372	8,627
Well services	2,305	2,414	4,623	4,844
General and administrative	14,217	20,538	31,784	32,280
Depreciation, depletion and amortization	22,197	10,822	43,405	19,930
<b>Total costs and expenses</b>	<b>84,322</b>	<b>52,780</b>	<b>194,156</b>	<b>122,934</b>
<b>Operating income (loss)</b>	<b>(996)</b>	<b>(15,735)</b>	<b>1,218</b>	<b>(14,788)</b>
Interest expense	(4,508)	(956)	(11,397)	(1,106)
Loss on asset sales and disposal	(672)	(16)	(1,374)	(7,021)
<b>Net loss</b>	<b>(6,176)</b>	<b>(16,707)</b>	<b>(11,553)</b>	<b>(22,915)</b>
Preferred limited partner dividends	(2,071)		(4,028)	
<b>Net loss attributable to owner's interest, common limited partners and the general partner</b>	<b>\$ (8,247)</b>	<b>\$ (16,707)</b>	<b>\$ (15,581)</b>	<b>\$ (22,915)</b>
<b>Allocation of net income (loss):</b>				
Portion applicable to owner's interest (period prior to the transfer of assets on March 5, 2012)	\$	\$	\$	\$ 250
Portion applicable to common limited partners and the general partner's interests (period subsequent to the transfer of assets on March 5, 2012)	(8,247)	(16,707)	(15,581)	(23,165)
<b>Net loss attributable to owner's interest, common limited partners and the general partner</b>	<b>\$ (8,247)</b>	<b>\$ (16,707)</b>	<b>\$ (15,581)</b>	<b>\$ (22,915)</b>

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**Allocation of net income (loss) attributable to common limited partners and the general partner:**

Common limited partners' interest	\$ (9,269)	\$ (16,373)	\$ (16,904)	\$ (22,702)
General partner's interest	1,022	(334)	1,323	(463)

Net loss attributable to common limited partners and the general partner \$ (8,247) \$ (16,707) \$ (15,581) \$ (23,165)

**Net loss attributable to common limited partners per unit:**

Basic and Diluted	\$ (0.20)	\$ (0.54)	\$ (0.37)	\$ (0.77)
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**Weighted average common limited partner units outstanding:**

Basic and Diluted	47,007	30,307	45,499	29,367
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See accompanying notes to consolidated financial statements.

**Table of Contents****ATLAS RESOURCE PARTNERS, L.P.****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)****(in thousands)****(Unaudited)**

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
Net loss	\$ (6,176)	\$ (16,707)	\$ (11,553)	\$ (22,915)
Other comprehensive income (loss):				
Changes in fair value of derivative instruments accounted for as cash flow hedges	42,972	(514)	18,028	13,655
Less: reclassification adjustment for realized gains of cash flow hedges in net loss	(2,286)	(6,739)	(3,279)	(9,339)
<b>Total other comprehensive income (loss)</b>	<b>40,686</b>	<b>(7,253)</b>	<b>14,749</b>	<b>4,316</b>
Comprehensive income (loss) attributable to owner's interest, common and preferred limited partners and the general partner	\$ 34,510	\$ (23,960)	\$ 3,196	\$ (18,599)

See accompanying notes to consolidated financial statements.



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## ATLAS RESOURCE PARTNERS, L.P.

## CONSOLIDATED STATEMENT OF PARTNERS' CAPITAL

(in thousands, except unit data)

(Unaudited)

	General Partners Interest		Preferred Limited Partners Interests		Common Limited Partners Interests		Accumulated Other Comprehensive Income	Total Partners Capital
	Class A Units	Amount	Units	Amount	Units	Amount		
<b>Balance at January 1, 2013</b>	975,708	\$ 7,029	3,836,554	\$ 96,155	43,973,153	\$ 737,253	\$ 21,569	\$ 862,006
Issuance of units	315,579				15,259,174	320,221		320,221
Issuance of common units under incentive plans					204,207			
Unissued common units under incentive plans						7,242		7,242
Distributions paid to common and preferred limited partners and the general partner		(1,564)		(3,798)		(43,535)		(48,897)
Distribution equivalent rights paid on unissued units under incentive plan						(1,003)		(1,003)
Net income (loss)		1,323		4,028		(16,904)		(11,553)
Other comprehensive income							14,749	14,749
<b>Balance at June 30, 2013</b>	1,291,287	\$ 6,788	3,836,554	\$ 96,385	59,436,534	\$ 1,003,274	\$ 36,318	\$ 1,142,765

See accompanying notes to consolidated financial statements.

**Table of Contents****ATLAS RESOURCE PARTNERS, L.P.****CONSOLIDATED STATEMENTS OF CASH FLOWS****(in thousands)****(Unaudited)**

	<b>Six Months Ended June 30,</b>	
	<b>2013</b>	<b>2012</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$ (11,553)	\$ (22,915)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation, depletion and amortization	43,405	19,930
Non-cash gain on derivative value, net	(20,223)	(13,092)
Loss on asset sales and disposal	1,374	7,021
Non-cash compensation expense	7,249	3,000
Amortization of deferred financing costs	5,797	529
Changes in operating assets and liabilities:		
Accounts receivable and prepaid expenses and other	32,103	32,210
Accounts payable and accrued liabilities	(90,097)	(63,960)
Net cash used in operating activities	(31,945)	(37,277)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Capital expenditures	(130,052)	(45,652)
Net cash paid for acquisitions		(205,236)
Other	(4,056)	
Net cash used in investing activities	(134,108)	(250,888)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Borrowings under credit facilities	249,000	168,000
Repayments under credit facilities	(600,425)	(24,000)
Net proceeds from issuance of long-term debt	267,811	
Net investment from owners		5,625
Distributions paid to unit holders	(48,897)	(3,208)
Net proceeds from issuance of common limited partner units	320,221	119,389
Deferred financing costs, distribution equivalent rights and other	(1,892)	(7,206)
Net cash provided by financing activities	185,818	258,600
Net change in cash and cash equivalents	19,765	(29,565)
Cash and cash equivalents, beginning of year	23,188	54,708
Cash and cash equivalents, end of period	\$ 42,953	\$ 25,143

See accompanying notes to consolidated financial statements.



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**ATLAS RESOURCE PARTNERS, L.P.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**June 30, 2013**

**(Unaudited)**

**NOTE 1 BASIS OF PRESENTATION**

Atlas Resource Partners, L.P. (the Partnership) is a publicly traded Delaware master-limited partnership (NYSE: ARP) and an independent developer and producer of natural gas, crude oil and natural gas liquids ( NGL ) with operations in basins across the United States. The Partnership sponsors and manages tax-advantaged investment partnerships, in which it coinvests, to finance a portion of its natural gas, crude oil and NGL production activities. At June 30, 2013, Atlas Energy, L.P. ( ATLS ), a publicly traded master-limited partnership (NYSE: ATLS), owned 100% of the general partner Class A units, all of the incentive distribution rights through which it manages and effectively controls the Partnership, and an approximate 33.1% limited partner interest (20,962,485 common limited partner units) in the Partnership (see Note 16).

The Partnership was formed in October 2011 to own and operate substantially all of ATLS exploration and production assets, which were transferred to the Partnership on March 5, 2012. In February 2012, the board of ATLS general partner approved the distribution of approximately 5.24 million of the Partnership's common units which were distributed on March 13, 2012 to ATLS unitholders using a ratio of 0.1021 of the Partnership's limited partner units for each of ATLS common units owned on the record date of February 28, 2012.

The accompanying consolidated financial statements, which are unaudited except that the balance sheet at December 31, 2012 is derived from audited financial statements, are presented in accordance with the requirements of Form 10-Q and accounting principles generally accepted in the United States ( U.S. GAAP ) for interim reporting. They do not include all disclosures normally made in financial statements contained in Form 10-K. In management's opinion, all adjustments necessary for a fair presentation of the Partnership's financial position, results of operations and cash flows for the periods disclosed have been made. These interim consolidated financial statements should be read in conjunction with the audited financial statements and notes thereto presented in the Partnership's Annual Report on Form 10-K for the year ended December 31, 2012. Certain amounts in the prior year's financial statements have been reclassified to conform to the current year presentation. The results of operations for the three and six months ended June 30, 2013 may not necessarily be indicative of the results of operations for the full year ending December 31, 2013.

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Principles of Consolidation and Combination*

The Partnership's consolidated balance sheets at June 30, 2013 and December 31, 2012, the consolidated statements of operations for the three months ended June 30, 2013 and 2012, the consolidated statements of operations for the six months ended June 30, 2013, and the portion of the consolidated statement of operations for the six months ended June 30, 2012 subsequent to the transfer of assets on March 5, 2012 include the accounts of the Partnership and its wholly-owned subsidiaries. The portion of the consolidated statement of operations for the six months ended June 30, 2012 prior to the transfer of assets on March 5, 2012 was derived from the separate records maintained by ATLS and may not necessarily be indicative of the conditions that would have existed if the Partnership had been operated as an unaffiliated entity. Accounting principles generally accepted in the United States of America require management to make estimates and assumptions that affect the amounts reported in the consolidated balance sheets and related consolidated statements of operations. Such estimates included allocations made from the historical accounting records of ATLS, based on management's best estimates, in order to derive the financial statements of the Partnership for the periods presented prior to March 5, 2012. Actual balances and results could be different from those estimates. Transactions between the Partnership and other ATLS operations have been identified in the consolidated statements as transactions between affiliates, where applicable. All material intercompany transactions have been eliminated.

In accordance with established practice in the oil and gas industry, the Partnership's consolidated financial statements include its pro-rata share of assets, liabilities, income and lease operating and general and administrative costs and expenses of the energy partnerships in which the Partnership has an interest ( the Drilling Partnerships ). Such interests typically range from 20% to 41%. The Partnership's consolidated financial statements do not include proportional consolidation of the depletion or impairment expenses of the Drilling Partnerships. Rather, the Partnership calculates these items specific to its own economics as further explained under the heading Property, Plant and Equipment elsewhere within this note.



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### *Use of Estimates*

The preparation of the Partnership's consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities that exist at the date of the Partnership's consolidated financial statements, as well as the reported amounts of revenue and costs and expenses during the reporting periods. The Partnership's consolidated financial statements are based on a number of significant estimates, including revenue and expense accruals, depletion, depreciation and amortization, asset impairments, fair value of derivative instruments, the probability of forecasted transactions and the allocation of purchase price to the fair value of assets acquired and liabilities assumed. Such estimates included estimated allocations made from the historical accounting records of ATLS in order to derive the historical financial statements of the Partnership. Actual results could differ from those estimates.

The natural gas industry principally conducts its business by processing actual transactions as many as 60 days after the month of delivery. Consequently, the most recent two months' financial results were recorded using estimated volumes and contract market prices. Differences between estimated and actual amounts are recorded in the following month's financial results. Management believes that the operating results presented for the three and six months ended June 30, 2013 and 2012 represent actual results in all material respects (see *Revenue Recognition* ).

### *Receivables*

Accounts receivable on the consolidated balance sheets consist solely of the trade accounts receivable associated with the Partnership's operations. In evaluating the realizability of its accounts receivable, the Partnership's management performs ongoing credit evaluations of its customers and adjusts credit limits based upon payment history and the customer's current creditworthiness, as determined by management's review of the Partnership's customers' credit information. The Partnership extends credit on sales on an unsecured basis to many of its customers. At June 30, 2013 and December 31, 2012, the Partnership had recorded no allowance for uncollectible accounts receivable on its consolidated balance sheets.

### *Inventory*

The Partnership had \$5.6 million and \$5.3 million of inventory at June 30, 2013 and December 31, 2012, respectively, which were included within prepaid expenses and other current assets on the Partnership's consolidated balance sheets. The Partnership values inventories at the lower of cost or market. The Partnership's inventories, which consist of materials, pipes, supplies and other inventories, were principally determined using the average cost method.

### *Property, Plant and Equipment*

Property, plant and equipment are stated at cost or, upon acquisition of a business, at the fair value of the assets acquired. Maintenance and repairs which generally do not extend the useful life of an asset for two years or more through the replacement of critical components are expensed as incurred. Major renewals and improvements which generally extend the useful life of an asset for two years or more through the replacement of critical components are capitalized. Depreciation and amortization expense is based on cost less the estimated salvage value primarily using the straight-line method over the asset's estimated useful life. When entire pipeline systems, gas plants or other property and equipment are retired or sold, any gain or loss is included in the Partnership's results of operations.

The Partnership follows the successful efforts method of accounting for oil and gas producing activities. Exploratory drilling costs are capitalized pending determination of whether a well is successful. Exploratory wells subsequently determined to be dry holes are charged to expense. Costs resulting in exploratory discoveries and all development costs, whether successful or not, are capitalized. Geological and geophysical costs to enhance or evaluate development of proved fields or areas are capitalized. All other geological and geophysical costs, delay rentals and unsuccessful exploratory wells are expensed. Oil and NGLs are converted to gas equivalent basis ( Mcfe ) at the rate of one barrel to 6 Mcf of natural gas. Mcf is defined as one thousand cubic feet.

The Partnership's depletion expense is determined on a field-by-field basis using the units-of-production method. Depletion rates for leasehold acquisition costs are based on estimated proved reserves, and depletion rates for well and related equipment costs are based on proved developed reserves associated with each field. Depletion rates are determined based on reserve quantity estimates and the capitalized costs of undeveloped and developed producing properties. Capitalized costs of developed producing properties in each field are aggregated to include the Partnership's costs of property interests in proportionately consolidated Drilling Partnerships, joint venture wells, wells drilled solely by the Partnership for its interests, properties purchased and working interests with other outside operators.



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Upon the sale or retirement of a complete field of a proved property, the cost is eliminated from the property accounts, and the resultant gain or loss is reclassified to the Partnership's consolidated statements of operations. Upon the sale of an individual well, the Partnership credits the proceeds to accumulated depreciation and depletion within its consolidated balance sheets. Upon the Partnership's sale of an entire interest in an unproved property where the property had been assessed for impairment individually, a gain or loss is recognized in the Partnership's consolidated statements of operations. If a partial interest in an unproved property is sold, any funds received are accounted for as a reduction of the cost in the interest retained.

*Impairment of Long-Lived Assets*

The Partnership reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If it is determined that an asset's estimated future cash flows will not be sufficient to recover its carrying amount, an impairment charge will be recorded to reduce the carrying amount for that asset to its estimated fair value if such carrying amount exceeds the fair value.

The review of the Partnership's oil and gas properties is done on a field-by-field basis by determining if the historical cost of proved properties less the applicable accumulated 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 the Partnership's 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. The Partnership estimates prices based upon current contracts in place, adjusted for basis differentials and market related information including published futures prices. The estimated future level of production is based on assumptions surrounding future prices and costs, field decline rates, market demand and supply and the economic and regulatory climates. If the carrying value exceeds the expected future cash flows, an impairment loss is recognized for the difference between the estimated fair market value (as determined by discounted future cash flows) and the carrying value of the assets.

The determination of oil and natural gas reserve estimates is a subjective process, and the accuracy of any reserve estimate depends on the quality of available data and the application of engineering and geological interpretation and judgment. Estimates of economically recoverable reserves and future net cash flows depend on a number of variable factors and assumptions that are difficult to predict and may vary considerably from actual results. In particular, the Partnership's reserve estimates for its investment in the Drilling Partnerships are based on its own assumptions rather than its proportionate share of the limited partnerships' reserves. These assumptions include the Partnership's actual capital contributions, an additional carried interest (generally 5% to 10%), a disproportionate share of salvage value upon plugging of the wells and lower operating and administrative costs.

The Partnership's lower operating and administrative costs result from the limited partners in the Drilling Partnerships paying to the Partnership their proportionate share of these expenses plus a profit margin. These assumptions could result in the Partnership's calculation of depletion and impairment being different than its proportionate share of the Drilling Partnerships' calculations for these items. In addition, reserve estimates for wells with limited or no production history are less reliable than those based on actual production. Estimated reserves are often subject to future revisions, which could be substantial, based on the availability of additional information which could cause the assumptions to be modified. The Partnership cannot predict what reserve revisions may be required in future periods.

The Partnership's method of calculating its reserves may result in reserve quantities and values which are greater than those which would be calculated by the Drilling Partnerships, which the Partnership sponsors and owns an interest in but does not control. The Partnership's reserve quantities include reserves in excess of its proportionate share of reserves in Drilling Partnerships, which the Partnership may be unable to recover due to the Drilling Partnerships' legal structure. The Partnership may have to pay additional consideration in the future as a well or Drilling Partnership becomes uneconomic under the terms of the Drilling Partnership's agreement in order to recover these excess reserves and to acquire any additional residual interests in the wells held by other partnership investors. The acquisition of any well interest from the Drilling Partnership by the Partnership is governed under the Drilling Partnership's agreement, and in general, must be at fair market value supported by an appraisal of an independent expert selected by the Partnership.

Unproved properties are reviewed annually for impairment or whenever events or circumstances indicate that the carrying amount of an asset may not be recoverable. Impairment charges are recorded if conditions indicate the Partnership will not explore the acreage prior to expiration of the applicable leases or if it is determined that the carrying value of the properties is above their fair value. There were no impairments of unproved gas and oil properties recorded by the Partnership for the three and six months ended June 30, 2013 and 2012.



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Proved properties are reviewed annually for impairment or whenever events or circumstances indicate that the carrying amount of an asset may not be recoverable. During the year ended December 31, 2012, the Partnership recognized \$9.5 million of asset impairments related to gas and oil properties within property, plant and equipment, net on its consolidated balance sheet for its shallow natural gas wells in the Antrim and Niobrara Shales. These impairments related to the carrying amounts of these gas and oil properties being in excess of the Partnership's estimate of their fair values at December 31, 2012. The estimate of the fair values of these gas and oil properties was impacted by, among other factors, the deterioration of natural gas prices at the date of measurement. There were no impairments of proved gas and oil properties recorded by the Partnership for the three and six months ended June 30, 2013 and 2012.

*Capitalized Interest*

The Partnership capitalizes interest on borrowed funds related to capital projects only for periods that activities are in progress to bring these projects to their intended use. The weighted average interest rate used to capitalize interest on borrowed funds by the Partnership was 5.9% and 3.1% for the three months ended June 30, 2013 and 2012, respectively, and 6.0% and 3.2% for the six months ended June 30, 2013 and 2012, respectively. The aggregate amount of interest capitalized by the Partnership was \$3.4 million and \$0.4 million for the three months ended June 30, 2013 and 2012, respectively, and \$6.9 million and \$0.4 million for the six months ended June 30, 2013 and 2012, respectively.

*Intangible Assets*

The Partnership recorded its intangible assets with finite lives in connection with partnership management and operating contracts acquired through prior consummated acquisitions. The Partnership amortizes contracts acquired on a declining balance method over their respective estimated useful lives.

The following table reflects the components of intangible assets being amortized at June 30, 2013 and December 31, 2012 (in thousands):

	June 30, 2013	December 31, 2012	Estimated Useful Lives In Years
Gross Carrying Amount	\$ 14,344	\$ 14,344	13
Accumulated Amortization	(13,188)	(13,024)	
Net Carrying Amount	\$ 1,156	\$ 1,320	

Amortization expense on intangible assets was \$0.1 million and approximately \$45,000 for the three months ended June 30, 2013 and 2012, respectively, and \$0.2 million and \$0.1 million for the six months ended June 30, 2013 and 2012, respectively. Aggregate estimated annual amortization expense for all of the contracts described above for the next five years ending December 31 is as follows: 2013 - \$0.4 million; 2014 - \$0.3 million; 2015 - \$0.2 million; 2016 - \$0.1 million and 2017 - \$0.1 million.

*Goodwill*

At June 30, 2013 and December 31, 2012, the Partnership had \$31.8 million of goodwill recorded in connection with its prior consummated acquisitions. No changes in the carrying amount of goodwill were recorded for the three and six months ended June 30, 2013 and 2012.

The Partnership tests goodwill for impairment at each year end by comparing its reporting units' estimated fair values to carrying values. Because quoted market prices for the reporting units are not available, the Partnership's management must apply judgment in determining the estimated fair value of these reporting units. The Partnership's management uses all available information to make these fair value determinations, including the present values of expected future cash flows using discount rates commensurate with the risks involved in the Partnership's assets and the available market data of the industry group. A key component of these fair value determinations is a reconciliation of the sum of the fair value calculations to the Partnership's market capitalization. The observed market prices of individual trades of an entity's equity securities (and thus its computed market capitalization) may not be representative of the fair value of the entity as a whole. Substantial value may arise from the ability to take advantage of synergies and other benefits that flow from control over another entity. Consequently, measuring the fair value of a collection of assets and liabilities that operate together in a controlled entity is different from measuring the fair value of that entity on a stand-alone basis. In most industries, including the Partnership's, an acquiring entity typically is willing to pay more for equity securities that give it a controlling interest.



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than an investor would pay for a number of equity securities representing less than a controlling interest. Therefore, once the above fair value calculations have been determined, the Partnership's management also considers the inclusion of a control premium within the calculations. This control premium is judgmental and is based on, among other items, observed acquisitions in the Partnership's industry. The resultant fair values calculated for the reporting units are compared to observable metrics on large mergers and acquisitions in the Partnership's industry to determine whether those valuations appear reasonable in management's judgment. Management will continue to evaluate goodwill at least annually or when impairment indicators arise. During the three and six months ended June 30, 2013 and 2012, no impairment indicators arose, and no goodwill impairments were recognized by the Partnership.

*Derivative Instruments*

The Partnership enters into certain financial contracts to manage its exposure to movement in commodity prices and interest rates (see Note 8). The derivative instruments recorded in the consolidated balance sheets were measured as either an asset or liability at fair value. Changes in a derivative instrument's fair value are recognized currently in the Partnership's consolidated statements of operations unless specific hedge accounting criteria are met.

*Asset Retirement Obligations*

The Partnership recognizes an estimated liability for the plugging and abandonment of its gas and oil wells and related facilities (see Note 6). The Partnership recognizes a liability for its future asset retirement obligations in the current period if a reasonable estimate of the fair value of that liability can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. The Partnership also considers the estimated salvage value in the calculation of depreciation, depletion and amortization.

*Income Taxes*

The Partnership is not subject to U.S. federal and most state income taxes. The partners of the Partnership are liable for income tax in regard to their distributive share of the Partnership's taxable income. Such taxable income may vary substantially from net income reported in the accompanying consolidated financial statements. Certain corporate subsidiaries of the Partnership are subject to federal and state income tax. The federal and state income taxes related to the Partnership and these corporate subsidiaries were immaterial to the consolidated financial statements and are recorded in pre-tax income on a current basis only. Accordingly, no federal or state deferred income tax has been provided for in the accompanying consolidated financial statements.

The Partnership evaluates tax positions taken or expected to be taken in the course of preparing the Partnership's tax returns and disallows the recognition of tax positions not deemed to meet a more-likely-than-not threshold of being sustained by the applicable tax authority. The Partnership's management does not believe it has any tax positions taken within its consolidated financial statements that would not meet this threshold. The Partnership's policy is to reflect interest and penalties related to uncertain tax positions, when and if they become applicable. The Partnership has not recognized any potential interest or penalties in its consolidated financial statements for the three and six months ended June 30, 2013 and 2012.

The Partnership files Partnership Returns of Income in the U.S. and various state jurisdictions. With few exceptions, the Partnership is no longer subject to income tax examinations by major tax authorities for years prior to 2009. The Partnership is not currently being examined by any jurisdiction and is not aware of any potential examinations as of June 30, 2013, except for an examination by the IRS related to one of its subsidiaries' Federal Partnership Return for the period ended December 31, 2011.

*Stock-Based Compensation*

The Partnership recognizes all share-based payments to employees, including grants of employee stock options, in the consolidated financial statements based on their fair values (see Note 14).

*Net Income (Loss) Per Common Unit*

Basic net income (loss) attributable to common limited partners per unit is computed by dividing net income (loss) attributable to common limited partners, which is determined after the deduction of the general partner's and the preferred unitholders' interests, by the weighted average number of common limited partner units outstanding during the period. Net



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income (loss) attributable to common limited partners is determined by deducting net income attributable to participating securities, if applicable, income (loss) attributable to preferred limited partners and net income (loss) attributable to the General Partner's Class A units. The General Partner's interest in net income (loss) is calculated on a quarterly basis based upon its Class A units and incentive distributions to be distributed for the quarter (see Note 13), with a priority allocation of net income to the General Partner's incentive distributions, if any, in accordance with the partnership agreement, and the remaining net income (loss) allocated with respect to the General Partner's and limited partners' ownership interests.

Prior to the transfer of assets to the Partnership on March 5, 2012 (see Note 1), the Partnership had no common units or General Partner Class A units outstanding. In addition, the Partnership had no net income (loss) attributable to common limited partners and the general partner prior to March 5, 2012.

The Partnership presents net income (loss) per unit under the two-class method for master limited partnerships, which considers whether the incentive distributions of a master limited partnership represent a participating security when considered in the calculation of earnings per unit under the two-class method. The two-class method considers whether the partnership agreement contains any contractual limitations concerning distributions to the incentive distribution rights that would impact the amount of earnings to allocate to the incentive distribution rights for each reporting period. If distributions are contractually limited to the incentive distribution rights' share of currently designated available cash for distributions as defined under the partnership agreement, undistributed earnings in excess of available cash should not be allocated to the incentive distribution rights. Under the two-class method, management of the Partnership believes the partnership agreement contractually limits cash distributions to available cash; therefore, undistributed earnings are not allocated to the incentive distribution rights.

Unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and are included in the computation of earnings per unit pursuant to the two-class method. Phantom unit awards, which consist of common units issuable under the terms of its long-term incentive plan (see Note 14), contain non-forfeitable rights to distribution equivalents of the Partnership. The participation rights would result in a non-contingent transfer of value each time the Partnership declares a distribution or distribution equivalent right during the award's vesting period. However, unless the contractual terms of the participating securities require the holders to share in the losses of the entity, net loss is not allocated to the participating securities. As such, the net income utilized in the calculation of net income (loss) per unit must be after the allocation of only net income to the phantom units on a pro-rata basis.

The following is a reconciliation of net income (loss) allocated to the common limited partners for purposes of calculating net loss attributable to common limited partners per unit (in thousands, except unit data):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net loss	\$ (6,176)	\$ (16,707)	\$ (11,553)	\$ (22,915)
Income applicable to owner's interest (period prior to transfer of assets on March 5, 2012)				(250)
Preferred limited partner dividends	(2,071)		(4,028)	
Net loss attributable to common limited partners and the general partner	(8,247)	(16,707)	(15,581)	(23,165)
Less: General partner's interest	(1,022)	334	(1,323)	463
Net loss attributable to common limited partners	(9,269)	(16,373)	(16,904)	(22,702)
Less: Net income attributable to participating securities - phantom units <sup>(1)</sup>				
Net loss utilized in the calculation of net loss attributable to common limited partners per unit	\$ (9,269)	\$ (16,373)	\$ (16,904)	\$ (22,702)

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- (1) Net income attributable to common limited partners' ownership interests is allocated to the phantom units on a pro-rata basis (weighted average phantom units outstanding as a percentage of the sum of the weighted average phantom units and common limited partner units outstanding). For the three months ended June 30, 2013 and 2012, net loss attributable to common limited partners' ownership interest is not allocated to approximately 923,000 and 420,000 phantom units, respectively, because the contractual terms of the phantom units as participating securities do not require the holders to share in the losses of the entity. For the six months ended June 30, 2013 and 2012, net loss attributable to common limited partners' ownership interest is not allocated to approximately 960,000 and 324,000 phantom units, respectively, because the contractual terms of the phantom units as participating securities do not require the holders to share in the losses of the entity.

Diluted net income (loss) attributable to common limited partners per unit is calculated by dividing net income (loss) attributable to common limited partners, less income allocable to participating securities, by the sum of the weighted average number of common limited partner units outstanding and the dilutive effect of unit option awards, as calculated by the treasury stock method. Unit options consist of common units issuable upon payment of an exercise price by the participant under the terms of the Partnership's long-term incentive plan (see Note 14).

The following table sets forth the reconciliation of the Partnership's weighted average number of common limited partner units used to compute basic net income (loss) attributable to common limited partners per unit with those used to compute diluted net income (loss) attributable to common limited partners per unit (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Weighted average number of common limited partner units - basic	47,007	30,307	45,499	29,367
Add effect of dilutive incentive awards <sup>(1)</sup>				
Add effect of dilutive convertible preferred limited partner units <sup>(2)</sup>				
Weighted average number of common limited partner units - diluted	47,007	30,307	45,499	29,367

- (1) For the three months ended June 30, 2013 and 2012, approximately 923,000 units and 420,000 units, respectively, were excluded from the computation of diluted earnings attributable to common limited partners per unit because the inclusion of such units would have been anti-dilutive. For the six months ended June 30, 2013 and 2012, approximately 960,000 units and 324,000 units, respectively, were excluded from the computation of diluted earnings attributable to common limited partners per unit because the inclusion of such units would have been anti-dilutive.
- (2) For the three and six months ended June 30, 2013, potential common limited partner units issuable upon conversion of the Partnership's Class B preferred units were excluded from the computation of diluted earnings attributable to common limited partners per unit because the inclusion of such units would have been anti-dilutive. No potential common limited partner units were excluded from the computation of diluted earnings attributable to common limited partners per unit for the three and six months ended June 30, 2012.

*Revenue Recognition*

Certain energy activities are conducted by the Partnership through, and a portion of its revenues are attributable to, the Drilling Partnerships. The Partnership contracts with the Drilling Partnerships to drill partnership wells. The contracts require that the Drilling Partnerships pay the Partnership the full contract price upon execution. The income from a drilling contract is recognized as the services are performed using the percentage of completion method. The contracts are typically completed between 60 and 270 days. On an uncompleted contract, the Partnership classifies the difference between the contract payments it has received and the revenue earned as a current liability titled "Liabilities Associated with Drilling Contracts" on the Partnership's consolidated balance sheets. The Partnership recognizes well services revenues at the time the services are performed. The Partnership is also entitled to receive management fees according to the respective partnership agreements and recognizes such fees as income when earned, which are included in administration and oversight revenues within its consolidated statements of operations.

The Partnership generally sells natural gas, crude oil and NGLs at prevailing market prices. Typically, the Partnership's sales contracts are based on pricing provisions that are tied to a market index, with certain fixed adjustments based on proximity to gathering and transmission lines and the quality of its natural gas. Generally, the market index is fixed two business days prior to the commencement of the production month. Revenue and the related accounts receivable are recognized when produced quantities are delivered to a custody transfer point, persuasive evidence of a sales arrangement exists, the rights and responsibility of ownership pass to the purchaser upon delivery, collection of revenue from the sale is reasonably assured and the sales price is fixed or determinable. Revenues from the production of natural gas, crude oil and NGLs, in

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which the Partnership has an interest with other producers, are recognized on the basis of its percentage ownership of the working interest and/or overriding royalty.

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The Partnership accrues unbilled revenue due to timing differences between the delivery of natural gas, NGLs and crude oil and the receipt of a delivery statement. These revenues are recorded based upon volumetric data from the Partnership's records and management estimates of the related commodity sales and transportation and compression fees which are, in turn, based upon applicable product prices (see *Use of Estimates* for further description). The Partnership had unbilled revenues at June 30, 2013 and December 31, 2012 of \$40.6 million and \$33.4 million, respectively, which were included in accounts receivable within the Partnership's consolidated balance sheets.

### *Comprehensive Income (Loss)*

Comprehensive income (loss) includes net income (loss) and all other changes in the equity of a business during a period from transactions and other events and circumstances from non-owner sources that, under U.S. GAAP, have not been recognized in the calculation of net income (loss). These changes, other than net income (loss), are referred to as other comprehensive income (loss) on the Partnership's consolidated financial statements, and at June 30, 2013, only include changes in the fair value of unsettled derivative contracts accounted for as cash flow hedges (see Note 8).

### *Recently Adopted Accounting Standards*

In February 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2013-02, *Comprehensive Income (Topic 220)* (Update 2013-02). Update 2013-02 requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present significant amounts reclassified out of accumulated other comprehensive income if the amount reclassified to net income in its entirety is in the same reporting period as incurred. For other amounts that are not required to be reclassified in their entirety to net income, an entity is required to reference to other disclosures that provide additional detail about those amounts. Entities are required to implement the amendments prospectively for reporting periods beginning after December 15, 2012, with early adoption being permitted. The Partnership adopted the requirements of Update 2013-02 upon its effective date of January 1, 2013, and it had no material impact on its financial position, results of operations or related disclosures.

### *Recently Issued Accounting Standards*

In July 2013, the FASB issued ASU 2013-11, *Income Taxes (Topic 740) Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists* (Update 2013-11), which, among other changes, requires an entity to present an unrecognized tax benefit as a liability and not net with deferred tax assets when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date to settle any additional income taxes under the tax law of the applicable jurisdiction that would result from the disallowance of a tax position or when the tax law of the applicable tax jurisdiction does not require, and the entity does not intend to, use the deferred tax asset for such purpose. These requirements are effective for interim and annual reporting periods beginning after December 15, 2013. Early adoption is permitted. These amendments should be applied prospectively to all unrecognized tax benefits that exist at the effective date. Retrospective application is permitted. The Partnership will apply the requirements of Update 2013-11 upon its effective date of January 1, 2014, and it does not anticipate it having a material impact on its financial position, results of operations or related disclosures.

In July 2013, the FASB issued ASU 2013-10, *Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes* (Update 2013-10). Currently, Topic 815 provides guidance on the risks that are permitted to be hedged in a fair value or cash flow hedge. In addition, only the interest rates on direct Treasury obligations of the U.S. Government (UST) and the London Interbank Offered Rate (LIBOR) swap rate are considered benchmark interest rates. Update 2013-10 amends Topic 815 to include the Overnight Index Swap Rate (OIS), also referred to as the Fed Funds Effective Swap Rate, as a U.S. benchmark interest rate for hedge accounting purposes. Including the OIS as an acceptable U.S. benchmark interest rate in addition to UST and LIBOR will provide risk managers with a more comprehensive spectrum of interest rate resets to utilize as the designated benchmark interest rate risk component under the hedge accounting guidance in Topic 815. Update 2013-10 is effective for qualifying new or redesignated hedging relationships entered into on or after July 17, 2013. The Partnership will apply the requirements of Update 2013-10 upon its effective date of July 17, 2013, and it does not anticipate it having a material impact on its financial position, results of operations or related disclosures.



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In February 2013, the FASB issued ASU 2013-04, *Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation is Fixed at the Reporting Date* ( Update 2013-04 ). Update 2013-04 provides guidance for the recognition, measurement and disclosure of obligations resulting from joint and several liability arrangements, for which the total amount of the obligation within the scope of this guidance is fixed at the reporting date, except for obligations addressed within existing guidance in U.S. GAAP. Examples of obligations within the scope of this update include debt arrangements, other contractual obligations and settled litigation and judicial rulings. Update 2013-04 requires an entity to measure joint and several liability arrangements, for which the total amount of the obligation is fixed at the reporting date as the sum of the amount the reporting entity agreed to pay on the basis of its arrangement among its co-obligors and any additional amount the reporting entity expects to pay on behalf of its co-obligors. In addition, Update 2013-04 provides disclosure guidance on the nature and amount of the obligation as well as other information. Update 2013-04 is effective for fiscal years and interim periods within those years, beginning after December 15, 2013. The Partnership will apply the requirements of Update 2013-04 upon its effective date of January 1, 2014, and it does not anticipate it having a material impact on its financial position, results of operations or related disclosures.

**NOTE 3 ACQUISITIONS***DTE Acquisition*

On December 20, 2012, the Partnership completed the acquisition of DTE Gas Resources, LLC from DTE Energy Company (NYSE: DTE; DTE ) for \$257.4 million, subject to certain post-closing adjustments (the DTE Acquisition ). In connection with entering into a purchase agreement related to the DTE Acquisition, the Partnership issued approximately 7.9 million of its common limited partner units through a public offering in November 2012 for \$174.5 million, which was used to partially repay amounts outstanding under its revolving credit facility prior to closing (see Note 12). The cash paid at closing was funded through \$179.8 million of borrowings under the Partnership's revolving credit facility and \$77.6 million through borrowings under its term loan credit facility (see Note 7).

The Partnership accounted for this transaction under the acquisition method of accounting. Accordingly, the Partnership evaluated the identifiable assets acquired and liabilities assumed at their respective acquisition date fair values (see Note 9). Due to the recent date of the acquisition, the accounting for the business combination is based upon preliminary data that remains subject to adjustment and could further change as the Partnership continues to evaluate the facts and circumstances that existed as of the acquisition date.

The following table presents the preliminary values assigned to the assets acquired and liabilities assumed in the acquisition, based on their estimated fair values at the date of the acquisition (in thousands):

<b>Assets:</b>	
Accounts receivable	\$ 10,721
Prepaid expenses and other	2,100
Total current assets	12,821
Property, plant and equipment	263,194
Other assets, net	273
Total assets acquired	\$ 276,288
<b>Liabilities:</b>	
Accounts payable	\$ 7,760
Accrued liabilities	2,910
Total current liabilities	10,670
Asset retirement obligation and other	8,169
Total liabilities assumed	18,839
Net assets acquired	\$ 257,449

*Titan Acquisition*

On July 25, 2012, the Partnership completed the acquisition of Titan Operating, L.L.C. ( 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 the Partnership's publicly traded units as of the acquisition closing date), as well as \$15.4 million in cash for closing adjustments (see Note 12). The cash paid at closing was funded through

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borrowings under the Partnership's 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) (see Note 12).

The Partnership accounted for this transaction under the acquisition method of accounting. Accordingly, the Partnership evaluated the identifiable assets acquired and liabilities assumed at their respective acquisition date fair values (see Note 9).

The following table presents the values assigned to the assets acquired and liabilities assumed in the acquisition, based on their estimated fair values at the date of the acquisition (in thousands):

<b>Assets:</b>	
Cash and cash equivalents	\$ 372
Accounts receivable	5,253
Prepaid expenses and other	131
<b>Total current assets</b>	<b>5,756</b>
Natural gas and oil properties	208,491
Other assets, net	2,344
<b>Total assets acquired</b>	<b>\$ 216,591</b>
<b>Liabilities:</b>	
Accounts payable	\$ 676
Revenue distribution payable	3,091
Accrued liabilities	1,816
<b>Total current liabilities</b>	<b>5,583</b>
Asset retirement obligation and other	2,418
<b>Total liabilities assumed</b>	<b>8,001</b>
<b>Net assets acquired</b>	<b>\$ 208,590</b>

*Carrizo Acquisition*

On April 30, 2012, the Partnership completed the acquisition of certain oil and natural gas assets from Carrizo Oil and Gas, Inc. (NASDAQ: CRZO; Carrizo) for approximately \$187.0 million in cash. The purchase price was funded through borrowings under the Partnership's credit facility and \$119.5 million of net proceeds from the sale of 6.0 million of its common units at a negotiated purchase price per unit of \$20.00, of which \$5.0 million was purchased by certain executives of the Partnership. The common units were issued in a private transaction exempt from registration under Section 4(2) of the Securities Act (see Note 12).

The Partnership accounted for this transaction under the acquisition method of accounting. Accordingly, the Partnership evaluated the identifiable assets acquired and liabilities assumed at their respective acquisition date fair values (see Note 9).

The following table presents the values assigned to the assets acquired and liabilities assumed in the acquisition, based on their estimated fair values at the date of the acquisition (in thousands):

<b>Assets:</b>	
Natural gas and oil properties	\$ 190,946

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**Liabilities:**

Asset retirement obligation	3,903
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Net assets acquired	\$ 187,043
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The following is a summary of property, plant and equipment at the dates indicated (in thousands):

	June 30, 2013	December 31, 2012	Estimated Useful Lives in Years
Natural gas and oil properties:			
Proved properties:			
Leasehold interests	\$ 257,863	\$ 244,476	
Pre-development costs	3,750	1,935	
Wells and related equipment	1,350,304	1,222,475	
Total proved properties	1,611,917	1,468,886	
Unproved properties	293,631	292,053	
Support equipment	14,300	13,110	
Total natural gas and oil properties	1,919,848	1,774,049	
Pipelines, processing and compression facilities	37,009	33,092	2 40
Rights of way	267	784	20 40
Land, buildings and improvements	8,631	8,283	3 40
Other	12,163	9,762	3 10
	1,977,918	1,825,970	
Less accumulated depreciation, depletion and amortization	(564,809)	(523,742)	
	\$ 1,413,109	\$ 1,302,228	

During the three and six months ended June 30, 2013, the Partnership recognized \$0.7 million and \$1.4 million, respectively, of loss on asset disposal, pertaining to its decision not to drill wells on leasehold property that expired during the three and six months ended June 30, 2013 in Indiana and Tennessee.

During the six months ended June 30, 2012, the Partnership recognized a \$7.0 million loss on asset disposal, pertaining to its decision to terminate a farm out agreement with a third party for well drilling in the South Knox area of the New Albany Shale that was originally entered into in 2010. The farm out agreement contained certain well drilling targets for the Partnership to maintain ownership of the South Knox processing plant, which the Partnership's management decided in 2012 not to achieve due to the then current natural gas price environment. As a result, the Partnership's management forfeited its interest in the processing plant and related properties and recorded a loss related to the net book values of those assets during the year ended December 31, 2012.

During the year ended December 31, 2012, the Partnership recognized \$9.5 million of asset impairments related to its gas and oil properties within property, plant and equipment, net on its consolidated balance sheet for its shallow natural gas wells in the Antrim and Niobrara Shales. These impairments related to the carrying amounts of gas and oil properties being in excess of the Partnership's estimate of their fair values at December 31, 2012. The estimate of fair values of these gas and oil properties was impacted by, among other factors, the deterioration of natural gas prices at the date of measurement.

**NOTE 5 OTHER ASSETS**

The following is a summary of other assets at the dates indicated (in thousands):

June 30, 2013	December 31, 2012
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Deferred financing costs, net of accumulated amortization of \$8,185 and \$2,388 at June 30, 2013 and December 31, 2012, respectively	\$ 16,748	\$ 14,467
Notes receivable	4,312	
Other	1,908	1,655
	\$ 22,968	\$ 16,122

Deferred finance costs are recorded at cost and amortized over the term of the respective debt agreements (see Note 7). Amortization expense of deferred finance costs was \$1.2 million and \$0.4 million for the three months ended June 30, 2013 and 2012, respectively, and \$2.6 million and \$0.5 million for the six months ended June 30, 2013 and 2012, respectively, which was recorded within interest expense on the Partnership's consolidated statements of operations. During the six months ended June 30, 2013, the Partnership also recognized \$3.2 million for accelerated amortization of deferred financing costs associated with the retirement of its term loan facility and a portion of the outstanding indebtedness under its revolving credit facility with a portion of the proceeds from its issuance of senior unsecured notes due 2021 ( 7.75% Senior Notes ) (see Note 7). There was no accelerated amortization of deferred financing costs during the three months ended June 30, 2013 and 2012 and during the six months ended June 30, 2012.

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At June 30, 2013, the Partnership had notes receivable with certain investors of its Drilling Partnerships, which was included within other assets, net on the Partnership's consolidated balance sheet. The notes have a maturity date of March 31, 2022, and a 2.25% per annum interest rate. The maturity date of the notes can be extended to March 31, 2027, subject to certain conditions, including an extension fee of 1.0% of the outstanding principal balance. For the three and six months ended June 30, 2013, approximately \$25,000 of interest income was recognized within other, net on the Partnership's consolidated statement of operations. There was no interest income recognized for the three and six months ended June 30, 2012. At June 30, 2013, the Partnership recorded no allowance for credit losses within its consolidated balance sheet based upon payment history and ongoing credit evaluations.

**NOTE 6 ASSET RETIREMENT OBLIGATIONS**

The Partnership recognized an estimated liability for the plugging and abandonment of its gas and oil wells and related facilities. The Partnership also recognized a liability for its future asset retirement obligations if a reasonable estimate of the fair value of that liability can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. The Partnership also considers the estimated salvage value in the calculation of depreciation, depletion and amortization.

The estimated liability was based on the Partnership's historical experience in plugging and abandoning wells, estimated remaining lives of those wells based on reserve estimates, external estimates as to the cost to plug and abandon the wells in the future and federal and state regulatory requirements. The liability was discounted using an assumed credit-adjusted risk-free interest rate. Revisions to the liability could occur due to changes in estimates of plugging and abandonment costs or remaining lives of the wells, or if federal or state regulators enact new plugging and abandonment requirements. The Partnership has no assets legally restricted for purposes of settling asset retirement obligations. Except for its gas and oil properties, the Partnership determined that there were no other material retirement obligations associated with tangible long-lived assets.

The Partnership proportionately consolidates its ownership interest of the asset retirement obligations of its Drilling Partnerships. At June 30, 2013, the Drilling Partnerships had \$58.4 million of aggregate asset retirement obligation liabilities recognized on their combined balance sheets allocable to the limited partners, exclusive of the Partnership's proportional interest in such liabilities. Under the terms of the respective partnership agreements, the Partnership maintains the right to retain a portion or all of the distributions to the limited partners of its Drilling Partnerships to cover the limited partners' share of the plugging and abandonment costs up to a specified amount per month. During both the three and six months ended June 30, 2013, the Partnership withheld approximately \$40,000 of limited partner distributions related to the asset retirement obligations of certain Drilling Partnerships. No amounts were withheld during the three and six months ended June 30, 2012. The Partnership's historical practice and continued intention is to retain distributions from the limited partners as the wells within each Drilling Partnership near the end of the useful life. On a partnership-by-partnership basis, the Partnership assesses its right to withhold amounts related to plugging and abandonment costs based on several factors including commodity prices, the natural decline in the production of the wells, and current and future costs.

A reconciliation of the Partnership's liability for well plugging and abandonment costs for the periods indicated is as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Asset retirement obligations, beginning of year	\$ 66,386	\$ 46,538	\$ 64,794	\$ 45,779
Liabilities incurred	599	3,911	1,244	4,092
Liabilities settled	(216)	(132)	(223)	(250)
Accretion expense	963	729	1,917	1,425
Asset retirement obligations, end of period	\$ 67,732	\$ 51,046	\$ 67,732	\$ 51,046

The above accretion expense was included in depreciation, depletion and amortization in the Partnership's consolidated statements of operations and the asset retirement obligation liabilities were included within asset retirement obligations and other in the Partnership's consolidated balance sheets.

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Total debt consists of the following at the dates indicated (in thousands):

	June 30, 2013	December 31, 2012
Revolving credit facility	\$	\$ 276,000
Term loan credit facility		75,425
7.75 % Senior Notes due 2021	275,000	
Total debt	275,000	351,425
Less current maturities		
Total long-term debt	\$ 275,000	\$ 351,425

*Credit Facility*

At June 30, 2013, the Partnership had a senior secured revolving credit facility with a syndicate of banks with a borrowing base of \$430.0 million, which is scheduled to mature in March 2016 (see Note 16). At June 30, 2013, no amounts were outstanding under the credit facility. In January 2013, the Partnership repaid in full its \$75.4 million term loan credit facility, which was scheduled to mature in May 2014, with proceeds from its issuance of 7.75% Senior Notes. Up to \$20.0 million of the revolving credit facility may be in the form of standby letters of credit, of which \$0.6 million was outstanding at June 30, 2013. The Partnership's obligations under the facility are secured by mortgages on its oil and gas properties and first priority security interests in substantially all of its assets. Additionally, obligations under the facility are guaranteed by substantially all of the Partnership's subsidiaries. Borrowings under the credit facility bear interest, at the Partnership's election, at either LIBOR plus an applicable margin between 1.75% and 3.00% 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 0.75% and 2.00% per annum. The Partnership is also required to pay a fee of 0.5% per annum on the unused portion of the borrowing base, which is included within interest expense on the Partnership's consolidated statements of operations.

The revolving credit agreement contains customary covenants that limit the Partnership's ability to incur additional indebtedness, grant liens, make loans or investments, make distributions if a borrowing base deficiency or default exists or would result from the distribution, merger or consolidation with other persons, or engage in certain asset dispositions including a sale of all or substantially all of its assets. The Partnership was in compliance with these covenants as of June 30, 2013. The credit agreement also requires the Partnership to maintain a ratio of Total Funded Debt (as defined in the credit agreement) to four quarters (actual or annualized, as applicable) of EBITDA (as defined in the credit agreement) not greater than 4.25 to 1.0 as of the last day of any fiscal quarter ending on or before December 31, 2013 and 4.0 to 1.0 as of the last day of fiscal quarters ending thereafter and a ratio of current assets (as defined in the credit agreement) to current liabilities (as defined in the credit agreement) of not less than 1.0 to 1.0 as of the last day of any fiscal quarter. Based on the definitions contained in the Partnership's credit agreement, its ratio of current assets to current liabilities was 3.9 to 1.0, and its ratio of Total Funded Debt to EBITDA was 2.3 to 1.0 at June 30, 2013.

*Senior Notes*

On January 23, 2013, the Partnership issued \$275.0 million of its 7.75% Senior Notes due 2021 in a private placement transaction at par. During the six months ended June 30, 2013, the Partnership used the net proceeds of approximately \$267.8 million, net of underwriting fees and other offering costs of \$7.2 million, to repay all of the indebtedness and accrued interest outstanding under its term loan credit facility and a portion of the amounts outstanding under its revolving credit facility. Under the terms of the Partnership's revolving credit facility, the borrowing base was reduced by 15% of the 7.75% Senior Notes to \$368.8 million. 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. At any time prior to January 15, 2017, the 7.75% Senior Notes are redeemable, in whole or in part, at a redemption price as defined in the governing 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 the Partnership's ability to incur certain liens, incur additional indebtedness; declare or pay



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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 the Partnership's assets. The Partnership was in compliance with these covenants as of June 30, 2013.

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In connection with the issuance of the 7.75% Senior Notes, the Partnership entered into registration rights agreements, whereby it agreed to (a) file an exchange offer registration statement with the Securities and Exchange Commission ( SEC ) to exchange the privately issued notes for registered notes, and (b) cause the exchange offer to be consummated by January 23, 2014. If the Partnership does not meet the aforementioned deadline, the 7.75% Senior Notes will be subject to additional interest, up to 1% per annum, until such time that the Partnership causes the exchange offer to be consummated. On July 1, 2013, the Partnership filed its registration statement with the SEC in satisfaction of certain requirements of the registration rights agreement.

The 7.75% Senior Notes are guaranteed by all of the Partnership's material subsidiaries. As of June 30, 2013, the Partnership was a holding company and had no independent assets or operations of its own. The guarantees under the 7.75% Senior Notes are full and unconditional and joint and several, and any subsidiaries of the Partnership other than the subsidiary guarantors are minor. There are no restrictions on the Partnership's ability to obtain cash or any other distributions of funds from the guarantor subsidiaries.

Cash payments for interest by the Partnership were \$3.7 million and \$0.6 million for the six months ended June 30, 2013 and 2012, respectively.

**NOTE 8 DERIVATIVE INSTRUMENTS**

The Partnership uses a number of different derivative instruments, principally swaps, collars and options, in connection with its commodity and interest rate price risk management activities. Management enters into financial instruments to hedge forecasted commodity sales against the variability in expected future cash flows attributable to changes in market prices. Swap instruments are contractual agreements between counterparties to exchange obligations of money as the underlying commodities are sold. Under commodity-based swap agreements, the Partnership receives or pays a fixed price and receives or remits a floating price based on certain indices for the relevant contract period. Commodity-based put option instruments are contractual agreements that require the payment of a premium and grant the purchaser of the put option the right, but not the obligation, to receive the difference between a fixed, or strike, price and a floating price based on certain indices for the relevant contract period, if the floating price is lower than the fixed price. The put option instrument sets a floor price for commodity sales being hedged. Costless collars are a combination of a purchased put option and a sold call option, in which the premiums net to zero. The costless collar eliminates the initial cost of the purchased put, but places a ceiling price for commodity sales being hedged.

Management formally documents all relationships between the Partnership's hedging instruments and the items being hedged, including its risk management objective and strategy for undertaking the hedging transactions. This includes matching the commodity derivative contracts to the forecasted transactions. Management assesses, both at the inception of the derivative and on an ongoing basis, whether the derivative is effective in offsetting changes in the forecasted cash flow of the hedged item. If it is determined that a derivative is not effective as a hedge or that it has ceased to be an effective hedge due to the loss of adequate correlation between the hedging instrument and the underlying item being hedged, the Partnership will discontinue hedge accounting for the derivative and subsequent changes in the derivative fair value, which are determined by management of the Partnership through the utilization of market data, will be recognized immediately within other, net in the Partnership's consolidated statements of operations. For derivatives qualifying as hedges, the Partnership recognizes the effective portion of changes in fair value of derivative instruments as accumulated other comprehensive income and reclassifies the portion relating to commodity derivatives to gas and oil production revenues within the Partnership's consolidated statements of operations as the underlying transactions are settled. For non-qualifying derivatives and for the ineffective portion of qualifying derivatives, management recognizes changes in fair value within other, net in the Partnership's consolidated statements of operations as they occur.

The Partnership enters into derivative contracts with various financial institutions, utilizing master contracts based upon the standards set by the International Swaps and Derivatives Association, Inc. These contracts allow for rights of offset at the time of settlement of the derivatives. Due to the right of offset, derivatives are recorded on the Partnership's consolidated balance sheets as assets or liabilities at fair value on the basis of the net exposure to each counterparty. Potential credit risk adjustments are also analyzed based upon the net exposure to each counterparty. Premiums paid for purchased options are recorded on the Partnership's consolidated balance sheets as the initial value of the options. The Partnership reflected net derivative assets on its consolidated balance sheets of \$47.5 million and \$20.3 million at June 30, 2013 and December 31, 2012, respectively. Of the \$36.3 million of net gain in accumulated other comprehensive income on the Partnership's consolidated balance sheet at June 30, 2013, if the fair values of the instruments remain at current market values, the Partnership will reclassify \$21.2 million of gains to gas and oil production revenue on its consolidated statement of operations over the next twelve month period as these contracts expire. Aggregate gains of \$15.1 million of gas and oil

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production revenues will be reclassified to the Partnership's consolidated statements of operations in later periods as the remaining contracts expire. Actual amounts that will be reclassified will vary as a result of future price changes. Approximately \$0.5 million of derivative loss was reclassified from other comprehensive income related to derivative instruments entered into during the three and six months ended June 30, 2013.

The following table summarizes the gain recognized in the Partnership's consolidated statements of operations for effective derivative instruments for the periods indicated (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
<b>Gain reclassified from accumulated other comprehensive income:</b>				
Gas and oil production revenue	\$ (2,286)	\$ (6,739)	\$ (3,279)	\$ (9,339)
<b>Total</b>	<b>\$ (2,286)</b>	<b>\$ (6,739)</b>	<b>\$ (3,279)</b>	<b>\$ (9,339)</b>

The following table summarizes the gross fair values of the Partnership's derivative instruments, presenting the impact of offsetting the derivative assets and liabilities on the Partnership's consolidated balance sheets for the periods indicated (in thousands):

	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Consolidated Balance Sheets	Net Amount of Assets Presented in the Consolidated Balance Sheets
<b>Offsetting Derivative Assets</b>			
<b>As of June 30, 2013</b>			
Current portion of derivative assets	\$ 37,766	\$ (2,191)	\$ 35,575
Long-term portion of derivative assets	18,377	(6,209)	12,168
Current portion of derivative liabilities	20	(20)	
Long-term portion of derivative liabilities	622	(622)	
<b>Total derivative assets</b>	<b>\$ 56,785</b>	<b>\$ (9,042)</b>	<b>\$ 47,743</b>
<b>As of December 31, 2012</b>			
Current portion of derivative assets	\$ 14,248	\$ (1,974)	\$ 12,274
Long-term portion of derivative assets	14,724	(5,826)	8,898
Long-term portion of derivative liabilities	800	(800)	
<b>Total derivative assets</b>	<b>\$ 29,772</b>	<b>\$ (8,600)</b>	<b>\$ 21,172</b>

	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Consolidated Balance Sheets	Net Amount of Liabilities Presented in the Consolidated Balance Sheets
<b>Offsetting Derivative Liabilities</b>			
<b>As of June 30, 2013</b>			
Current portion of derivative assets	\$ (2,191)	\$ 2,191	\$
Long-term portion of derivative assets	(6,209)	6,209	

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Current portion of derivative liabilities	(92)	20	(72)
Long-term portion of derivative liabilities	(752)	622	(130)

Total derivative liabilities	\$ (9,244)	\$ 9,042	\$ (202)
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**As of December 31, 2012**

Current portion of derivative assets	\$ (1,974)	\$ 1,974	\$
Long-term portion of derivative assets	(5,826)	5,826	
Long-term portion of derivative liabilities	(1,688)	800	(888)

Total derivative liabilities	\$ (9,488)	\$ 8,600	\$ (888)
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The Partnership enters into commodity future option and collar contracts to achieve more predictable cash flows by hedging its exposure to changes in commodity prices. At any point in time, such contracts may include regulated New York Mercantile Exchange ( NYMEX ) futures and options contracts and non-regulated over-the-counter futures contracts with qualified counterparties. NYMEX contracts are generally settled with offsetting positions, but may be settled by the physical delivery of the commodity. Crude oil contracts are based on a West Texas Intermediate ( WTI ) index. NGL fixed price swaps are priced based on a WTI crude oil index. These contracts have qualified and been designated as cash flow hedges and were recorded at their fair values.

In June 2012, the Partnership received approximately \$3.9 million in net proceeds from the early termination of natural gas and oil derivative positions for production periods from 2015 through 2016. In conjunction with the early termination of these derivatives, the Partnership entered into new derivative positions at prevailing prices at the time of the transaction. The net proceeds from the early termination of these derivatives were used to reduce indebtedness under the Partnership's credit facility (see Note 7). The gain recognized upon the early termination of these derivative positions will continue to be reported in accumulated other comprehensive income and will be reclassified into the Partnership's consolidated statements of operations in the same periods in which the hedged production revenues would have been recognized in earnings.

In June 2013, the Partnership entered into contracts which provided the option to enter into swap contracts for future production periods ( swaptions ) up through September 30, 2013 for production volumes related to assets acquired from EP Energy E&P Company L.P. ( EP Energy ) (see Note 16). In connection with the swaption contracts, the Partnership paid premiums of \$11.3 million, which represented their fair value on the date the transactions were initiated and was initially recorded as a derivative asset on the Partnership's consolidated balance sheet. Swaption contract premiums paid are amortized over the period from initiation of the contract through their termination date. For the three months ended June 30, 2013, the Partnership recognized approximately \$1.3 million of amortization expense in other, net on the Partnership's consolidated statement of operations related to the swaption contracts.

During the six months ended June 30, 2012, the Partnership entered into contracts which provided the option to enter into swaptions up through May 31, 2012 for production volumes related to wells acquired from Carrizo (see Note 3). In connection with the swaption contracts, the Partnership paid premiums of \$4.6 million, which represented their fair value on the date the transactions were initiated and was initially recorded as a derivative asset on the Partnership's consolidated balance sheet and was fully amortized as of June 30, 2012. For the three and six months ended June 30, 2012, the Partnership recorded approximately \$3.6 million and \$4.6 million, respectively, of amortization expense in other, net on the Partnership's consolidated statements of operations related to the swaption contracts.

The Partnership recognized gains of \$2.3 million and \$6.7 million for the three months ended June 30, 2013 and 2012, respectively, and \$3.3 million and \$9.3 million for the six months ended June 30, 2013 and 2012, respectively, on settled contracts covering commodity production. These gains and losses were included within gas and oil production revenue in the Partnership's consolidated statements of operations. As the underlying prices and terms in the Partnership's derivative contracts were consistent with the indices used to sell its natural gas and oil, there were no gains or losses recognized during the three and six months ended June 30, 2013 and 2012 for hedge ineffectiveness or as a result of the discontinuance of any cash flow hedges.

At June 30, 2013, the Partnership had the following commodity derivatives:

### Natural Gas Fixed Price Swaps

Production Period Ending December 31,	Volumes	Average	Fair Value
		Fixed Price	Asset/(Liability)
	(MMBtu) <sup>(1)</sup>	(per MMBtu) <sup>(1)</sup>	(in thousands) <sup>(2)</sup>
2013	14,694,800	\$ 3.821	\$ 2,599
2014	31,353,000	\$ 4.139	7,160
2015	27,234,500	\$ 4.237	2,580
2016	33,746,300	\$ 4.359	990
2017	24,120,000	\$ 4.538	(720)
2018	3,960,000	\$ 4.716	(472)
			\$ 12,137



**Table of Contents****Natural Gas Costless Collars**

Production Period Ending December 31,	Option Type	Volumes (MMBtu) <sup>(1)</sup>	Average Floor and Cap (per MMBtu) <sup>(1)</sup>	Fair Value Asset/(Liability) (in thousands) <sup>(2)</sup>
2013	Puts purchased	2,760,000	\$ 4.395	\$ 2,252
2013	Calls sold	2,760,000	\$ 5.443	(32)
2014	Puts purchased	3,840,000	\$ 4.221	2,287
2014	Calls sold	3,840,000	\$ 5.120	(418)
2015	Puts purchased	3,480,000	\$ 4.234	1,903
2015	Calls sold	3,480,000	\$ 5.129	(731)
				\$ 5,261

**Natural Gas Put Options**

Production Period Ending December 31,	Option Type	Volumes (MMBtu) <sup>(1)</sup>	Average Fixed Price (per MMBtu) <sup>(1)</sup>	Fair Value Asset (in thousands) <sup>(2)</sup>
2013	Puts purchased	14,280,000	\$ 3.957	\$ 5,965
				\$ 5,965

**Natural Gas Put Options Drilling Partnership**

Production Period Ending December 31,	Option Type	Volumes (MMBtu) <sup>(1)</sup>	Average Fixed Price (per MMBtu) <sup>(1)</sup>	Fair Value Asset (in thousands) <sup>(2)</sup>
2013	Puts purchased	1,080,000	\$ 3.450	\$ 124
2014	Puts purchased	1,800,000	\$ 3.800	574
2015	Puts purchased	1,440,000	\$ 4.000	546
2016	Puts purchased	1,440,000	\$ 4.150	584
				\$ 1,828

**Natural Gas Fixed Price Swaptions**

Production Period Ending December 31,	Volumes (MMBtu) <sup>(1)</sup>	Average Fixed Price (per MMBtu) <sup>(1)</sup>	Fair Value Asset (in thousands) <sup>(2)</sup>
2014	26,880,000	\$ 4.159	12,816
2015	17,760,000	\$ 4.297	6,649
			\$ 19,465

**Natural Gas Liquids Fixed Price Swaps**

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<b>Production Period Ending December 31,</b>	<b>Volumes</b>	<b>Average Fixed Price</b>	<b>Fair Value Asset/(Liability) (in thousands)<sup>(3)</sup></b>
	<b>(Bbl)<sup>(1)</sup></b>	<b>(per Bbl)<sup>(1)</sup></b>	
2013	63,000	\$ 93.656	\$ (99)
2014	105,000	\$ 91.571	169
2015	96,000	\$ 88.550	282
2016	84,000	\$ 85.651	233
2017	60,000	\$ 83.780	157
			\$ 742



**Table of Contents****Natural Gas Liquids Ethane Fixed Price Swaps**

<b>Production Period Ending December 31,</b>	<b>Volumes</b>	<b>Average Fixed Price (per Gal)<sup>(1)</sup></b>	<b>Fair Value Asset (in thousands)<sup>(4)</sup></b>
2014	2,520,000	\$ 0.303	\$ 98
			\$ 98

**Crude Oil Fixed Price Swaps**

<b>Production Period Ending December 31,</b>	<b>Volumes</b>	<b>Average Fixed Price (per Bbl)<sup>(1)</sup></b>	<b>Fair Value Asset/(Liability) (in thousands)<sup>(3)</sup></b>
2013	262,850	\$ 92.307	\$ (766)
2014	414,000	\$ 91.727	692
2015	411,000	\$ 88.030	1,009
2016	165,000	\$ 85.931	503
2017	72,000	\$ 84.175	215
			\$ 1,653