Western Gas Partners LP
Form 10-Q
August 04, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

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

For the quarterly period ended June 30, 2011

Or

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

For the transition period from to

Commission file number: 001-34046

WESTERN GAS PARTNERS, LP

(Exact name of registrant as specified in its charter)

Delaware	**26-1075808**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
1201 Lake Robbins Drive The Woodlands, Texas	**77380**
(Address of principal executive offices)	*(Zip Code)*

(832) 636-6000

(Registrant s telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No o

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

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

There were 57,854,693 common units outstanding as of July 29, 2011.

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DEFINITIONS

As generally used within the energy industry and in this quarterly report on Form 10-Q, the identified terms have the following meanings:

Barrel or Bbl: 42 U.S. gallons measured at 60 degrees Fahrenheit.

Bcf: One billion cubic feet.

Bcf/d: One billion cubic feet per day.

Btu: British thermal unit; the approximate amount of heat required to raise the temperature of one pound of water by one degree Fahrenheit.

Condensate: A natural gas liquid with a low vapor pressure mainly composed of propane, butane, pentane and heavier hydrocarbon fractions.

Cryogenic: The fractionation process in which liquefied gases, such as liquid nitrogen or liquid helium, are used to bring volumes to very low temperatures (below approximately -238 degrees Fahrenheit) to separate natural gas liquids from natural gas. Through cryogenic processing, more natural gas liquids are extracted than when traditional refrigeration methods are used.

Drip condensate: Heavier hydrocarbon liquids that fall out of the natural gas stream and are recovered in the gathering system without processing.

Fractionation: The process of applying various levels of higher pressure and lower temperature to separate a stream of natural gas liquids into ethane, propane, normal butane, isobutane and natural gasoline.

Imbalance: Imbalances result from (i) differences between gas volumes nominated by customers and gas volumes received from those customers and (ii) differences between gas volumes received from customers and gas volumes delivered to those customers.

MBbls/d: One thousand barrels per day.

MMBtu: One million British thermal units.

MMBtu/d: One million British thermal units per day.

MMcf: One million cubic feet.

MMcf/d: One million cubic feet per day.

Natural gas liquid(s) or NGL(s): The combination of ethane, propane, normal butane, isobutane and natural gasolines that, when removed from natural gas, become liquid under various levels of higher pressure and lower temperature.

Pounds per square inch, absolute: The pressure resulting from a one-pound force applied to an area of one square inch, including local atmospheric pressure. All volumes presented herein are based on a standard pressure base of 14.73 pounds per square inch, absolute.

Residue gas: The natural gas remaining after being processed or treated.

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

WESTERN GAS PARTNERS, LP
CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

thousands except per-unit amounts	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010 (1)	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010 (1)
Revenues affiliates				
Gathering, processing and transportation of natural gas and natural gas liquids	**$ 50,580**	$ 45,290	**$ 99,190**	$ 90,758
Natural gas, natural gas liquids and condensate sales	**67,320**	59,576	**120,521**	119,254
Equity income and other, net	**3,579**	1,444	**6,287**	3,042
Total revenues affiliates	**121,479**	106,310	**225,998**	213,054
Revenues third parties				
Gathering, processing and transportation of natural gas and natural gas liquids	**16,929**	10,201	**29,449**	21,648
Natural gas, natural gas liquids and condensate sales	**23,237**	7,457	**41,441**	17,651
Other, net	**103**	1,015	**853**	1,566
Total revenues third parties	**40,269**	18,673	**71,743**	40,865
Total revenues	**161,748**	124,983	**297,741**	253,919
Operating expenses				
Cost of product (2)	**62,317**	38,506	**109,137**	80,479
Operation and maintenance (2)	**23,639**	22,205	**44,501**	44,596
General and administrative (2)	**7,082**	5,455	**13,780**	11,523
Property and other taxes	**3,974**	3,649	**7,933**	7,268
Depreciation, amortization and impairments	**21,711**	17,613	**41,269**	35,332
Total operating expenses	**118,723**	87,428	**216,620**	179,198
Operating income	**43,025**	37,555	**81,121**	74,721
Interest income affiliates	**4,225**	4,232	**8,450**	8,462
Interest expense (3)	**(6,697)**	(3,598)	**(12,808)**	(7,126)
Other expense, net	**(3,682)**	(2,393)	**(1,922)**	(2,373)
Income before income taxes	**36,871**	35,796	**74,841**	73,684
Income tax expense	**94**	3,419	**126**	8,975
Net income	**36,777**	32,377	**74,715**	64,709
Net income attributable to noncontrolling interests	**2,838**	3,371	**5,792**	5,265
Net income attributable to Western Gas Partners, LP	**$ 33,939**	$ 29,006	**$ 68,923**	$ 59,444

Limited partner interest in net income:				
Net income attributable to Western Gas Partners, LP	**$ 33,939**	$ 29,006	**$ 68,923**	$ 59,444
Pre-acquisition net income allocated to Parent		(5,595)		(11,901)
General partner interest in net income [4]	**(1,842)**	(519)	**(3,290)**	(1,002)
Limited partner interest in net income [4]	**$ 32,097**	$ 22,892	**$ 65,633**	$ 46,541
Net income per common unit basic and diluted	**$ 0.40**	$ 0.35	**$ 0.83**	$ 0.72
Net income per subordinated unit basic and diluted	**$ 0.38**	$ 0.35	**$ 0.79**	$ 0.72
Net income per limited partner unit basic and diluted	**$ 0.39**	$ 0.35	**$ 0.82**	$ 0.72

(1) Financial information for 2010 has been revised to include results attributable to the Wattenberg assets and 0.4% interest in White Cliffs. See *Note 1.*

(2) Cost of product includes product purchases from Anadarko (as defined in *Note 1)* of $18.1 million and $33.6 million for the three and six months ended June 30, 2011, respectively, and $16.1 million and $32.8 million for the three and six months ended June 30, 2010, respectively. Operation and maintenance includes charges from Anadarko of $10.5 million and $20.2 million for the three and six months ended June 30, 2011, respectively, and $8.9 million and $20.5 million for the three and six months ended June 30, 2010, respectively. General and administrative includes charges from Anadarko of $5.2 million and $10.3 million for the three and six months ended June 30, 2011, respectively, and $4.4 million and $8.9 million for the three and six months ended June 30, 2010, respectively. See *Note 4*.

(3) Includes affiliate interest expense of $1.2 million and $2.5 million for the three and six months ended June 30, 2011, respectively, and $1.8 million and $3.6 million for the three and six months ended June 30, 2010, respectively. See *Note 7.*

(4) Represents net income for periods including and subsequent to the acquisition of the Partnership assets (as defined in *Note 1*). See also *Note 3.*

See accompanying Notes to Consolidated Financial Statements.

WESTERN GAS PARTNERS, LP
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

thousands except number of units	June 30, 2011	December 31, 2010
ASSETS		
Current assets		
Cash and cash equivalents	**$ 62,695**	$ 27,074
Accounts receivable, net (1)	**28,104**	10,890
Other current assets	**3,701**	5,220
Total current assets	**94,500**	43,184
Note receivable Anadarko	**260,000**	260,000
Plant, property and equipment		
Cost	**2,025,652**	1,727,231
Less accumulated depreciation	**406,956**	367,881
Net property, plant and equipment	**1,618,696**	1,359,350
Goodwill and other intangible assets	**115,266**	60,236
Equity investments	**39,742**	40,406
Other assets	**9,017**	2,361
Total assets	**$ 2,137,221**	$ 1,765,537
LIABILITIES, EQUITY AND PARTNERS CAPITAL		
Current liabilities		
Accounts and natural gas imbalance payables (2)	**$ 20,343**	$ 15,175
Accrued ad valorem taxes	**7,806**	5,986
Income taxes payable	**326**	160
Accrued liabilities (3)	**30,144**	20,873
Total current liabilities	**58,619**	42,194
Long-term debt third parties	**493,946**	299,000
Note payable Anadarko	**175,000**	175,000
Asset retirement obligations and other	**61,514**	44,275
Total long-term liabilities	**730,460**	518,275
Total liabilities	**789,079**	560,469
Equity and partners capital		
Common units (54,904,409 and 51,036,968 units issued and outstanding at June 30, 2011, and December 31, 2010, respectively)	**943,973**	810,717
Subordinated units (26,536,306 units issued and outstanding at June 30, 2011, and December 31, 2010)	**282,969**	282,384
General partner units (1,661,757 and 1,583,128 units issued and outstanding at June 30, 2011, and December 31, 2010, respectively)	**25,052**	21,505

Total partners capital	**1,251,994**	1,114,606
Noncontrolling interests	**96,148**	90,462
Total equity and partners capital	**1,348,142**	1,205,068
Total liabilities, equity and partners capital	**$ 2,137,221**	$ 1,765,537

(1) Accounts receivable, net includes amounts receivable from affiliates (as defined in *Note 1)* of $11.2 million and $1.8 million as of June 30, 2011, and December 31, 2010, respectively.

(2) Accounts and natural gas imbalances payables includes amounts payable to affiliates of $1.4 million and $1.5 million as of June 30, 2011, and December 31, 2010, respectively.

(3) Accrued liabilities include amounts payable to affiliates of $0.3 million and $0.6 million as of June 30, 2011, and December 31, 2010, respectively.

See accompanying Notes to Consolidated Financial Statements.

WESTERN GAS PARTNERS, LP
CONSOLIDATED STATEMENT OF EQUITY AND PARTNERS CAPITAL
(UNAUDITED)

	Partners Capital				
	Limited Partners		General	Noncontrolling	
thousands	**Common**	**Subordinated**	**Partner**	**Interests**	**Total**
Balance at December 31, 2010	$ 810,717	$ 282,384	$ 21,505	$ 90,462	$ 1,205,068
Net income	**44,615**	**21,018**	**3,290**	**5,792**	**74,715**
Issuance of common and general partner units, net of offering expenses	**129,805**		**2,764**		**132,569**
Contributions from noncontrolling interest owners				**7,389**	**7,389**
Distributions to noncontrolling interest owners				**(7,495)**	**(7,495)**
Distributions to unitholders	**(40,801)**	**(20,433)**	**(2,498)**		**(63,732)**
Non-cash equity-based compensation and other	**(363)**		**(9)**		**(372)**
Balance at June 30, 2011	**$ 943,973**	**$ 282,969**	**$ 25,052**	**$ 96,148**	**$ 1,348,142**

See accompanying Notes to Consolidated Financial Statements.

WESTERN GAS PARTNERS, LP
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

thousands	Six Months Ended June 30, 2011	2010 (1)
Cash flows from operating activities		
Net income	**$ 74,715**	$ 64,709
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and impairments	**41,269**	35,332
Deferred income taxes	**(41)**	(2,633)
Changes in assets and liabilities:		
Increase in accounts receivable, net	**(17,741)**	(6,352)
Increase in accounts and natural gas imbalance payables and accrued liabilities, net	**12,189**	8,106
Change in other items, net	**2,962**	564
Net cash provided by operating activities	**113,353**	99,726
Cash flows from investing activities		
Capital expenditures	**(29,956)**	(50,189)
Acquisition from affiliates		(241,680)
Acquisition from third parties	**(303,602)**	
Investments in equity affiliates	**(93)**	(310)
Proceeds from sale of assets to affiliate	**242**	
Net cash used in investing activities	**(333,409)**	(292,179)
Cash flows from financing activities		
Borrowings, net of issuance costs	**1,045,939**	209,987
Repayments of debt	**(859,000)**	(100,000)
Proceeds from issuance of common and general partner units	**132,569**	99,311
Distributions to unitholders	**(63,732)**	(43,435)
Contributions from noncontrolling interest owners	**7,389**	2,053
Distributions to noncontrolling interest owners	**(7,495)**	(6,383)
Net contributions from Parent	**7**	25,338
Net cash provided by financing activities	**255,677**	186,871
Net increase (decrease) in cash and cash equivalents	**35,621**	(5,582)
Cash and cash equivalents at beginning of period	**27,074**	69,984
Cash and cash equivalents at end of period	**$ 62,695**	$ 64,402
Supplemental disclosures		
Contribution of assets from Parent	**$ 7**	$ 7,530
Increase in accrued capital expenditures	**$ 4,237**	$ 2,376
Interest paid	**$ 8,271**	$ 6,068
Interest received	**$ 8,450**	$ 8,450

(1) Financial information for 2010 has been revised to include results attributable to the Wattenberg assets and 0.4% interest in White Cliffs. See *Note 1*.

See accompanying Notes to Consolidated Financial Statements.

WESTERN GAS PARTNERS, LP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

Description of business. Western Gas Partners, LP (the Partnership) is a Delaware limited partnership formed in August 2007. As of June 30, 2011, the Partnership s assets included eleven gathering systems, six natural gas treating facilities, seven natural gas processing facilities, one NGL pipeline, one interstate pipeline and interests in Fort Union Gas Gathering, L.L.C. (Fort Union) and White Cliffs Pipeline, L.L.C. (White Cliffs) accounted for under the equity method. The Partnership s assets are located in East and West Texas, the Rocky Mountains (Colorado, Utah and Wyoming), and the Mid-Continent (Kansas and Oklahoma). The Partnership is engaged in the business of gathering, processing, compressing, treating and transporting natural gas, condensate, NGLs and crude oil for Anadarko Petroleum Corporation and its consolidated subsidiaries, as well as third-party producers and customers.

For purposes of these consolidated financial statements, the Partnership refers to Western Gas Partners, LP and its consolidated subsidiaries. The Partnership s general partner is Western Gas Holdings, LLC (the general partner or GP), a wholly owned subsidiary of Anadarko Petroleum Corporation. Anadarko or Parent refers to Anadarko Petroleum Corporation and its consolidated subsidiaries, excluding the Partnership and the general partner. Affiliates refers to wholly owned and partially owned subsidiaries of Anadarko, excluding the Partnership, and also refers to Fort Union and White Cliffs.

Basis of presentation. The accompanying consolidated financial statements of the Partnership have been prepared in accordance with generally accepted accounting principles in the United States (GAAP). The consolidated financial statements include the accounts of the Partnership and entities in which it holds a controlling financial interest. All significant intercompany transactions have been eliminated. Investments in non-controlled entities over which the Partnership exercises significant influence are accounted for under the equity method. The Partnership records its 50% proportionate share of the assets, liabilities, revenues and expenses attributable to the Newcastle system. Noncontrolling interests in the Partnership s assets and income represent the aggregate 49% interest in Chipeta Processing LLC (Chipeta) held by Anadarko Petroleum Corporation and a third party.

The information furnished herein reflects all normal recurring adjustments which are, in the opinion of management, necessary for a fair statement of financial position as of June 30, 2011, and December 31, 2010, results of operations for the three and six months ended June 30, 2011 and 2010, statement of equity and partners capital for the six months ended June 30, 2011, and statements of cash flows for the six months ended June 30, 2011 and 2010. The Partnership s financial results for the three and six months ended June 30, 2011, are not necessarily indicative of the expected results for the full year ending December 31, 2011.

In preparing financial statements in accordance with GAAP, management makes informed judgments and estimates that affect the reported amounts of assets, liabilities, revenues, and expenses. Management evaluates its estimates and related assumptions regularly, utilizing historical experience and other methods considered reasonable under the particular circumstances. Changes in facts and circumstances or additional information may result in revised estimates and actual results may differ from these estimates.

Certain information and note disclosures normally included in annual financial statements have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Accordingly, the accompanying consolidated financial statements and notes should be read in conjunction with the Partnership s annual report on Form 10-K, as filed with the SEC on February 24, 2011. Management believes that the disclosures made are adequate to make the information not misleading.

WESTERN GAS PARTNERS, LP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION (CONTINUED)

Acquisitions. The following table presents the acquisitions completed by the Partnership during 2010 and 2011, and details the funding for those acquisitions through borrowings, cash on hand and/or the issuance of Partnership equity:

thousands except unit and percent amounts	Acquisition Date	Percentage Acquired	Borrowings	Cash On Hand	Common Units Issued	GP Units Issued
Granger [(1)]	01/29/10	100%	$ 210,000	$ 31,680	620,689	12,667
Wattenberg [(2)]	08/02/10	100%	450,000	23,100	1,048,196	21,392
White Cliffs [(3)]	09/28/10	10%		38,047		
Platte Valley [(4)]	02/28/11	100%	303,000	602		
Bison [(5)]	07/08/11	100%		25,000	2,950,284	60,210

(1) The assets acquired from Anadarko include (i) the Granger gathering system with related compressors and other facilities, and (ii) the Granger complex, consisting of cryogenic trains, a refrigeration train, an NGLs fractionation facility and ancillary equipment. These assets, located in southwestern Wyoming, are referred to collectively as the Granger assets and the acquisition as the Granger acquisition.

(2) The assets acquired from Anadarko include the Wattenberg gathering system and related facilities, including the Fort Lupton processing plant. These assets, located in the Denver-Julesburg Basin, north and east of Denver, Colorado, are referred to collectively as the Wattenberg assets and the acquisition as the Wattenberg acquisition.

(3) White Cliffs owns a crude oil pipeline that originates in Platteville, Colorado and terminates in Cushing, Oklahoma, which became operational in June 2009. The Partnership s acquisition of the 0.4% interest in White Cliffs and related purchase option from Anadarko combined with the acquisition of an additional 9.6% interest in White Cliffs from a third party, are referred to collectively as the White Cliffs acquisition. The Partnership s interest in White Cliffs is referred to as the White Cliffs investment.

(4) The assets acquired from a third party include (i) a natural gas gathering system and related compression and other ancillary equipment, and (ii) cryogenic gas processing facilities. These assets, located in the Denver-Julesburg Basin, are referred to collectively as the Platte Valley assets and the acquisition as the Platte Valley acquisition. See further information below.

(5) Subsequent to June 30, 2011, the Partnership acquired Anadarko s Bison gas treating facility and related assets located in the Powder River Basin in northeastern Wyoming, including (i) three amine treating units, (ii) compressor units, and (iii) generators. These assets are referred to collectively as the Bison assets and the acquisition as the Bison acquisition.

Platte Valley acquisition. The Platte Valley acquisition has been accounted for under the acquisition method of accounting. At February 28, 2011, the date of the acquisition, the assets and liabilities of the Partnership continue to be recorded based upon their historical costs and the Platte Valley assets and liabilities are recorded at their estimated fair values. Results of operations attributable to the Platte Valley assets were included in the Partnership s consolidated statements of income beginning on the acquisition date in the first quarter of 2011.

The following is the current allocation of the purchase price to the assets acquired and liabilities assumed in the Platte Valley acquisition as of the acquisition date.

thousands		
Property, plant and equipment	$	**264,521**
Intangible assets		**55,399**
Asset retirement obligations and other liabilities		**(16,318)**
Total purchase price	$	**303,602**

WESTERN GAS PARTNERS, LP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION (CONTINUED)

The purchase price allocation is based on an initial assessment of the fair value of the assets acquired and liabilities assumed in the Platte Valley acquisition. The fair values of the plant and processing facilities, related equipment, and intangible assets acquired were based on market, cost and income approaches. The liabilities assumed include certain amounts associated with environmental contingencies estimated by management. All fair-value measurements of assets acquired and liabilities assumed are based on inputs that are not observable in the market and thus represent Level 3 inputs. The current purchase price allocation is preliminary and is subject to change pending post-closing purchase price adjustments; finalizing fair value estimates; and completing evaluations of property, plant and equipment, intangible assets, asset retirement obligations, contractual arrangements and legal and environmental matters as additional information becomes available and is assessed by the Partnership. For more information regarding the intangible assets presented in the table above, see *Note 6.*

The following table presents the pro forma condensed financial information as if the Platte Valley acquisition occurred on January 1, 2011.

thousands except per-unit amount		**Six Months Ended June 30, 2011**
Revenues	**$**	**313,780**
Net income		**77,441**
Net income attributable to Western Gas Partners, LP		**71,649**
Earnings per limited partner unit basic and diluted	**$**	**0.85**

The pro forma information is presented for illustration purposes only and is not necessarily indicative of the operating results that would have occurred had the acquisition been completed at the assumed date, nor is it necessarily indicative of future operating results of the combined entity. The Partnership s pro forma information in the table above includes $31.5 million of revenues and $21.3 million of expenses attributable to the Platte Valley assets and is included in the Partnership s consolidated statement of income for the six months ended June 30, 2011. The pro forma adjustments reflect pre-acquisition results of the Platte Valley assets for January and February 2011, including (a) estimated revenues and expenses; (b) estimated depreciation and amortization based on the preliminary purchase price allocated to property, plant and equipment and other intangible assets and estimated useful lives; (c) elimination of $0.7 million of acquisition-related costs; and (d) interest on the Partnership s $303.0 million of borrowings under its revolving credit facility to finance the Platte Valley acquisition. The pro forma adjustments include estimates and assumptions based on currently available information. Management believes the estimates and assumptions are reasonable, and the relative effects of the transactions are properly reflected. The pro forma information does not reflect any cost savings or other synergies anticipated as a result of the acquisition, nor any future acquisition related expenses. Pro forma information is not presented for periods ended on or before December 31, 2010, as it is not practical to determine revenues and cost of product for periods prior to January 1, 2011, the effective date of the gathering and processing agreement with the seller.

Presentation of Partnership acquisitions. References to the Partnership assets refer collectively to the assets owned by the Partnership as of June 30, 2011. Because of Anadarko s control of the Partnership through its ownership of the general partner, each acquisition as of June 30, 2011, of Partnership assets, except for the acquisitions of the Platte Valley assets and the 9.6% interest in White Cliffs from third parties, was considered a transfer of net assets between entities under common control. As a result, after each acquisition of assets from Anadarko, the Partnership is required to revise its financial statements to include the activities of the Partnership assets as of the date of common control. Anadarko acquired the Wattenberg assets in connection with its August 10, 2006, acquisition of Kerr-McGee Corporation, and made its initial investment in White Cliffs on January 29, 2007.

WESTERN GAS PARTNERS, LP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION (CONTINUED)

The Partnership s historical financial statements for the three and six months ended June 30, 2010, as presented in the Partnership s second quarter 2010 Form 10-Q as filed with the SEC on August 5, 2010, have been recast in this quarterly report on Form 10-Q to include the results attributable to the Wattenberg assets and the 0.4% interest in White Cliffs as if the Partnership owned such assets for all periods presented. Unless otherwise noted, references to periods prior to the acquisition of the Partnership assets and similar phrases refer to periods prior to July 2010 with respect to the Wattenberg assets and periods prior to September 2010 with respect to the White Cliffs investment. References to periods including and subsequent to the acquisition of the Partnership assets and similar phrases refer to periods including and subsequent to July 2010 with respect to the Wattenberg assets and periods including and subsequent to September 2010 with respect to the White Cliffs investment. The consolidated financial statements for periods prior to the Partnership s acquisition of the Partnership assets have been prepared from Anadarko s historical cost-basis accounts and may not necessarily be indicative of the actual results of operations that would have occurred if the Partnership had owned the assets during the periods reported.

Net income attributable to the Partnership assets for periods prior to the Partnership s acquisition of such assets is not allocated to the limited partners for purposes of calculating net income per limited partner unit. In addition, certain amounts in prior periods have been reclassified to conform to the current presentation. Specifically, during the quarter ended September 30, 2010, the Partnership revised its presentation to report the effects of commodity price swap agreements attributable to purchases in cost of product in its consolidated statements of income. Net gains and losses on commodity price swap agreements related to purchases have been reclassified from revenue to cost of product for all periods to conform to the current presentation. The following table presents the impact to the historical consolidated statements of income attributable to the Wattenberg assets and 0.4% interest in White Cliffs, as well as the reclassification of the impact of commodity price swap agreements related to purchases:

	Three Months Ended June 30, 2010				
thousands	**Partnership Historical**	**Wattenberg Assets**	**White Cliffs**	**Reclassification**	**Combined**
Revenues	$ 87,968	$ 30,094	$ 50	$ 6,871	$ 124,983
Net income	26,782	5,543	52		32,377

	Six Months Ended June 30, 2010				
thousands	**Partnership Historical**	**Wattenberg Assets**	**White Cliffs**	**Reclassification**	**Combined**
Revenues	$ 182,287	$ 65,131	$ 90	$ 6,411	$ 253,919
Net income	51,590	13,026	93		64,709

WESTERN GAS PARTNERS, LP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION (CONTINUED)

Equity offerings. The Partnership completed the following public equity offerings during 2010 and 2011:

thousands except unit and per-unit amounts	**Common Units Issued** [2]	**GP Units Issued** [3]	**Price Per Unit**	**Underwriting Discount and Other Offering Expenses**	**Net Proceeds** [4]
May 2010 equity offering [1]	4,558,700	93,035	$ 22.25	$ 4,427	$ 99,074
November 2010 equity offering	8,415,000	171,734	29.92	10,279	246,729
March 2011 equity offering	3,852,813	78,629	35.15	5,621	132,569

(1) The May 2010 equity offering refers collectively to the May 2010 equity offering issuance, and the June 2010 exercise of the underwriters over-allotment option.

(2) Common units issued includes the issuance of 558,700 common units, 915,000 common units and 302,813 common units pursuant to the exercise, in full or in part, of the underwriters over-allotment options granted in connection with the May 2010, November 2010 and March 2011 equity offerings, respectively.

(3) GP units issued represents general partner units issued to the general partner in exchange for the general partner s proportionate capital contribution to maintain its 2.0% interest.

(4) Net proceeds were primarily used to repay amounts outstanding under the Partnership s revolving credit facility.

Limited partner and general partner units. The Partnership s common units are listed on the New York Stock Exchange under the symbol WES. The following table summarizes common, subordinated and general partner units issued during the six months ended June 30, 2011:

thousands	**Limited Partner Units Common**	**Subordinated**	**General Partner Units**	**Total**
Balance at December 31, 2010	51,037	26,536	1,583	79,156
March 2011 equity offering	**3,853**		**79**	**3,932**
Long-Term Incentive Plan Awards	**14**			**14**
Balance at June 30, 2011	**54,904**	**26,536**	**1,662**	**83,102**

Anadarko holdings of Partnership equity. As of June 30, 2011, Anadarko held 1,661,757 general partner units representing a 2% general partner interest in the Partnership, 10,302,631 common units, 26,536,306 subordinated units, and 100% of the Partnership s incentive distribution rights, or IDRs. Anadarko owned an aggregate 44.3% interest in the Partnership based on its holdings of common and subordinated limited partner units. The public held 44,601,778 common units, representing a 53.7% interest in the Partnership based on its holdings of common limited partner units. Anadarko s ownership interest as of June 30, 2011, does not include the common or general units it acquired in connection with the Bison acquisition, which was completed in July 2011. Management anticipates the subordinated units held by Anadarko will convert to common units on August 15, 2011.

Recently issued accounting standards not yet adopted. In May 2011, the Financial Accounting Standards Board (the FASB) issued an Accounting Standards Update (ASU) amending guidance for fair value measurements and related disclosures. The ASU clarifies the FASB s intent regarding the application of existing fair value measurement requirements, changes the fair value measurement requirements for certain financial instruments and requires additional disclosures about fair value measurements. This ASU will apply to the Partnership prospectively beginning January 1, 2012. The impact of the adoption of the ASU on the Partnership s consolidated financial statements, if any, is currently under evaluation.

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2. PARTNERSHIP DISTRIBUTIONS

The partnership agreement requires the Partnership to distribute all of its available cash (as defined in the partnership agreement) to unitholders of record on the applicable record date within 45 days of the end of each quarter. The Partnership declared the following cash distributions to its unitholders for the periods presented:

thousands except per-unit amounts **Quarters Ended**	**Total Quarterly Distribution per Unit**	**Total Cash Distribution**	**Date of Distribution**
March 31, 2010	$ 0.340	$ 22,042	May 2010
June 30, 2010	$ 0.350	$ 24,378	August 2010
March 31, 2011	$ 0.390	$ 33,168	May 2011
June 30, 2011 (1)	$ 0.405	$ 36,063	August 2011

(1) On June 30, 2011, the board of directors of the Partnership s general partner declared a cash distribution to the Partnership s unitholders of $0.405 per unit, or $36.1 million in aggregate, including incentive distributions. The cash distribution is payable on August 12, 2011, to unitholders of record at the close of business on July 29, 2011.

3. NET INCOME PER LIMITED PARTNER UNIT

The Partnership s net income for periods including and subsequent to the Partnership s acquisitions of the Partnership assets is allocated to the general partner and the limited partners, including any subordinated unitholders, in accordance with their respective ownership percentages, and when applicable, giving effect to incentive distributions allocable to the general partner. The Partnership s net income allocable to the limited partners is allocated between the common and subordinated unitholders by applying the provisions of the partnership agreement that govern actual cash distributions as if all earnings for the period had been distributed. Specifically, net income equal to the amount of available cash (as defined by the partnership agreement) is allocated to the general partner, common unitholders and subordinated unitholders consistent with actual cash distributions, including incentive distributions allocable to the general partner. Undistributed earnings (net income in excess of distributions) or undistributed losses (available cash in excess of net income) are then allocated to the general partner, common unitholders and subordinated unitholders in accordance with their respective ownership percentages during each period.

Basic and diluted net income per limited partner unit is calculated by dividing the limited partners interest in net income by the weighted average number of limited partner units outstanding during the period. The common units issued in connection with acquisitions and equity offerings during 2010 and 2011 are included on a weighted-average basis for periods they were outstanding. Management anticipates the subordinated units will convert to common units on August 15, 2011.

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3. NET INCOME PER LIMITED PARTNER UNIT (CONTINUED)

The following table illustrates the Partnership s calculation of net income per unit for common and subordinated limited partner units:

thousands except per-unit amounts	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Net income attributable to Western Gas Partners, LP	**$ 33,939**	$ 29,006	**$ 68,923**	$ 59,444
Pre-acquisition net income allocated to Parent		(5,595)		(11,901)
General partner interest in net income	**(1,842)**	(519)	**(3,290)**	(1,002)
Limited partner interest in net income	**$ 32,097**	$ 22,892	**$ 65,633**	$ 46,541
Net income allocable to common units	**$ 22,028**	$ 13,639	**$ 44,615**	$ 27,380
Net income allocable to subordinated units	**10,069**	9,253	**21,018**	19,161
Limited partner interest in net income	**$ 32,097**	$ 22,892	**$ 65,633**	$ 46,541
Net income per limited partner unit basic and diluted				
Common units	**$ 0.40**	$ 0.35	**$ 0.83**	$ 0.72
Subordinated units	**$ 0.38**	$ 0.35	**$ 0.79**	$ 0.72
Total limited partner units	**$ 0.39**	$ 0.35	**$ 0.82**	$ 0.72
Weighted average limited partner units outstanding basic and diluted				
Common units	**54,896**	39,117	**53,528**	37,966
Subordinated units	**26,536**	26,536	**26,536**	26,536
Total limited partner units	**81,432**	65,653	**80,064**	64,502

4. TRANSACTIONS WITH AFFILIATES

Affiliate transactions. Revenues from affiliates include amounts earned by the Partnership from services provided to Anadarko as well as from the sale of residue gas, condensate and NGLs to Anadarko. In addition, the Partnership purchases natural gas from an affiliate of Anadarko pursuant to gas purchase agreements. Operating and maintenance expense includes amounts accrued for or paid to affiliates for the operation of the Partnership assets, whether in providing services to affiliates or to third parties, including field labor, measurement and analysis, and other disbursements. A portion of the Partnership s general and administrative expenses are paid by Anadarko, which results in affiliate transactions pursuant to the reimbursement provisions of the omnibus agreement. Affiliate expenses do not inherently bear a direct relationship to affiliate revenues and third-party expenses do not necessarily bear a direct relationship to third-party revenues. See *Note 1* for further information related to contributions of assets to the Partnership by Anadarko.

Cash management. Anadarko operates a cash management system whereby excess cash from most of its subsidiaries, held in separate bank accounts, is generally swept to centralized accounts. Prior to the acquisition of the Partnership assets, third-party sales and purchases related to such assets were received or paid in cash by Anadarko within its centralized cash management system. Anadarko charged or credited the Partnership interest at a variable rate on outstanding affiliate balances for the periods these balances remained outstanding. The outstanding affiliate balances were entirely settled through an adjustment to parent net investment in connection with the acquisition of the Partnership assets. Subsequent to the acquisition of the Partnership assets, the Partnership cash-settles transactions related to such assets directly with third parties and with Anadarko affiliates and affiliate-based interest expense on current intercompany balances is not charged.

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4. TRANSACTIONS WITH AFFILIATES (CONTINUED)

Note receivable from Anadarko. Concurrent with the closing of the Partnership s May 2008 initial public offering, the Partnership loaned $260.0 million to Anadarko in exchange for a 30-year note bearing interest at a fixed annual rate of 6.50%. Interest on the note is payable quarterly. The fair value of the note receivable from Anadarko was approximately $272.8 million and $258.9 million at June 30, 2011, and December 31, 2010, respectively. The fair value of the note reflects consideration of credit risk and any premium or discount for the differential between the stated interest rate and quarter-end market interest rate, based on quoted market prices of similar debt instruments.

Commodity price swap agreements. The Partnership holds commodity price swap agreements with Anadarko to mitigate exposure to commodity price volatility that would otherwise be present as a result of the purchase and sale of natural gas, condensate or NGLs. Notional volumes for each of the swap agreements are not specifically defined; instead, the commodity price swap agreements apply to the actual volume of natural gas, condensate and NGLs purchased and sold at the Hilight, Hugoton, Newcastle, Granger and Wattenberg assets. The commodity price swap agreements do not satisfy the definition of a derivative financial instrument and, therefore, are not required to be measured at fair value. The Partnership reports its realized gains and losses on the commodity price swap agreements related to sales in natural gas, natural gas liquids and condensate sales in its consolidated statements of income in the period in which the associated revenues are recognized. The Partnership reports its realized gains and losses on the commodity price swap agreements related to purchases in cost of product in its consolidated statements of income in the period in which the associated purchases are recorded. The Partnership has not entered into any new commodity price swap agreements since the fourth quarter of 2010.

The following table summarizes realized gains and losses on commodity price swap agreements:

	Three Months Ended June 30,		Six Months Ended June 30,	
thousands	**2011**	**2010**	**2011**	**2010**
Gains (losses) on commodity price swap agreements:				
Natural gas sales	**$ 8,992**	$ 5,190	**$ 15,800**	$ 5,465
Natural gas liquids sales	**(10,677)**	2,896	**(16,518)**	695
Total	**(1,685)**	8,086	**(718)**	6,160
Losses on commodity price swap agreements related to purchases	**(6,670)**	(6,871)	**(12,876)**	(6,411)
Net gains (losses) on commodity price swap agreements	**$ (8,355)**	$ 1,215	**$ (13,594)**	$ (251)

Gas gathering and processing agreements. The Partnership has significant gas gathering and processing arrangements with affiliates of Anadarko on a majority of its systems. Approximately 80% and 81% of the Partnership s gathering and transportation throughput for the three and six months ended June 30, 2011 and 2010, respectively, was attributable to natural gas production owned or controlled by Anadarko. Approximately 71% and 78% of the Partnership s processing throughput for the three months ended June 30, 2011 and 2010, respectively, and 72% and 78% for the six months ended June 30, 2011 and 2010, respectively, was attributable to natural gas production owned or controlled by Anadarko.

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4. TRANSACTIONS WITH AFFILIATES (CONTINUED)

Summary of affiliate transactions. Affiliate transactions include revenue from affiliates, reimbursement of operating expenses and purchases of natural gas. The following table summarizes affiliate transactions, including transactions with the general partner:

	Three Months Ended June 30,		Six Months Ended June 30,	
thousands	**2011**	**2010**	**2011**	**2010**
Revenues [(1)]	**$ 121,479**	$ 106,310	**$ 225,998**	$ 213,054
Cost of product [(1)]	**18,102**	16,136	**33,592**	32,825
Operation and maintenance [(2)]	**10,526**	8,904	**20,178**	20,467
General and administrative [(3)]	**5,225**	4,434	**10,262**	8,897
Operating expenses	**33,853**	29,474	**64,032**	62,189
Interest income [(4)]	**4,225**	4,232	**8,450**	8,462
Interest expense [(5)]	**1,233**	1,785	**2,467**	3,570
Distributions to unitholders [(6)]	**15,779**	12,609	**30,864**	24,848
Contributions from noncontrolling interest owners	**2,659**	34	**3,619**	2,019
Distributions to noncontrolling interest owners	**1,533**	1,751	**4,547**	3,126

(1) Represents amounts recognized under gathering and processing, and purchase and sale agreements with affiliates of Anadarko.

(2) Represents expenses incurred under the Services and Secondment Agreement with Anadarko, as applicable. See *Note 1.*

(3) Represents general and administrative expense incurred under the Omnibus Agreement with Anadarko, as applicable. See *Note 1.*

(4) Represents interest income recognized under the Note Receivable from Anadarko.

(5) Represents interest expense recognized under the Note Payable to Anadarko.

(6) Represents distributions paid to an affiliate of Anadarko under the Partnership Agreement.

Concentration of credit risk. Anadarko was the only customer from whom revenues exceeded 10% of the Partnership s consolidated revenues for all periods presented on the Partnership s consolidated statements of income. The percentages of revenues from Anadarko and the Partnership s other customers are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	**2010**	**2011**	**2010**
Anadarko	**73%**	85%	**74%**	84%
Other customers	**27%**	15%	**26%**	16%
Total	**100%**	100%	**100%**	100%

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5. PROPERTY, PLANT AND EQUIPMENT

A summary of the historical cost of the Partnership s property, plant and equipment is as follows:

thousands	June 30, 2011	December 31, 2010
Land	$ 354	$ 354
Gathering systems	1,902,733	1,621,633
Pipelines and equipment	83,718	83,613
Assets under construction	35,713	18,928
Other	3,134	2,703
Total property, plant and equipment	2,025,652	1,727,231
Accumulated depreciation	406,956	367,881
Net property, plant and equipment	$ 1,618,696	$ 1,359,350

The cost of property classified as Assets under construction is excluded from capitalized costs being depreciated. These amounts represent property that is not yet suitable to be placed into productive service as of the respective balance sheet date. In addition, property, plant and equipment cost as well as third-party accrued liability balances in the Partnership s consolidated balance sheets include $9.7 million and $5.5 million of accrued capital as of June 30, 2011, and December 31, 2010, respectively, representing estimated capital expenditures for which invoices had not yet been processed.

6. OTHER INTANGIBLE ASSETS

The intangible asset balance in the Partnership s consolidated balance sheets represent the estimated economic value related to the contracts assumed by the Partnership in connection with the Platte Valley acquisition in February 2011, that dedicate certain customers field production to the acquired gathering and processing system. These contracts ensure an extended commercial relationship with the existing customers and provide the Partnership with a high probability of additional production from the customers acreage. These contracts are generally limited, however, by the quantity and production life of the underlying natural gas resource base.

At June 30, 2011, the carrying value of the Partnership s customer relationship intangible assets was $55.0 million, net of $0.4 million of accumulated amortization, and is included in goodwill and other intangible assets in the Partnership s consolidated balance sheets. Customer relationships are amortized on a straight-line basis over 50 years, which is the estimated productive life of the reserves covered by the underlying acreage ultimately expected to be produced and gathered or processed through the Partnership s assets subject to current contractual arrangements. Estimated future amortization for these intangible assets is as follows:

thousands	Future amortization
July December 2011	$ 554
2012	1,108
2013	1,108
2014	1,108
2015	1,108

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6. OTHER INTANGIBLE ASSETS (CONTINUED)

The Partnership assesses intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Impairments exist when the carrying amount of an asset exceeds estimates of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. When alternative courses of action to recover the carrying amount of a long-lived asset are under consideration, estimates of future undiscounted cash flows take into account possible outcomes and probabilities of their occurrence. If the carrying amount of the long-lived asset is not recoverable based on the estimated future undiscounted cash flows, the impairment loss is measured as the excess of the asset s carrying amount over its estimated fair value such that the asset s carrying amount is adjusted to its estimated fair value with an offsetting charge to operating expense. No intangible asset impairment has been recognized in connection with these assets.

7. DEBT AND INTEREST EXPENSE

The following table presents the Partnership s outstanding debt as of June 30, 2011, and December 31, 2010:

	June 30, 2011			December 31, 2010		
thousands	**Principal**	**Carrying Value**	**Fair Value**	Principal	Carrying Value	Fair Value
Revolving credit facility	**$**	**$**	**$**	$ 49,000	$ 49,000	$ 49,000
5.375% Senior Notes due 2021	**500,000**	**493,946**	**514,834**			
Wattenberg term loan				250,000	250,000	250,000
Note payable to Anadarko	**175,000**	**175,000**	**170,327**	175,000	175,000	168,116
Total debt outstanding [1]	**$ 675,000**	**$ 668,946**	**$ 685,161**	$ 474,000	$ 474,000	$ 467,116

[1] The Partnership s consolidated balance sheets include accrued interest expense of $3.3 million and $0.8 million as of June 30, 2011, and December 31, 2010, respectively, which is included in accrued liabilities.

Fair value of debt. The fair value of debt reflects any premium or discount for the difference between the stated interest rate and quarter-end market interest rate and is based on quoted market prices for identical instruments, if available, or based on valuations of similar debt instruments.

The following table presents the debt activity of the Partnership for the six months ended June 30, 2011:

thousands	**Carrying Value**
Balance as of December 31, 2010	$ 474,000
First Quarter 2011	
Revolving credit facility borrowings	560,000
Repayment of revolving credit facility	(139,000)
Repayment of Wattenberg term loan	(250,000)
Revolving credit facility borrowings Swingline	10,000
Repayment of revolving credit facility Swingline	(10,000)
Second Quarter 2011	
Revolving credit facility borrowings Swingline	**10,000**
Issuance of 5.375% Senior Notes due 2021	**500,000**
Repayment of revolving credit facility	**(470,000)**
Repayment of revolving credit facility Swingline	**(10,000)**
Other and changes in debt discount	**(6,054)**

Balance as of June 30, 2011	**$**	**668,946**

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7. DEBT AND INTEREST EXPENSE (CONTINUED)

5.375% Senior Notes due 2021. In May 2011, the Partnership completed the offering of $500.0 million aggregate principal amount of 5.375% Senior Notes due 2021 (the Notes) at a price to the public of 98.778% of the face amount of the Notes. Interest on the Notes will be paid semi-annually on June 1 and December 1 of each year, commencing on December 1, 2011. The Notes mature on June 1, 2021, unless redeemed, in whole or in part, at any time prior to maturity, at a redemption price that includes a make-whole premium. Proceeds from the offering of the Notes (net of the underwriting discount of $3.3 million and debt issuance costs) were used to repay the then-outstanding balance on the Partnership s revolving credit facility, with the remainder used for general partnership purposes.

The Notes are fully and unconditionally guaranteed on a senior unsecured basis by each of the Partnership s wholly owned subsidiaries (the Subsidiary Guarantors). The Subsidiary Guarantors guarantees will be released if, among other things, the Subsidiary Guarantors are released from their obligations under the Partnership s revolving credit facility. See *Note 9* for the financial statements of the Subsidiary Guarantors.

The Notes indenture contains customary events of default including, among others, (i) default in any payment of interest on any debt securities when due that continues for 30 days; (ii) default in payment, when due, of principal of or premium, if any, on the Notes at maturity; and (iii) certain events of bankruptcy or insolvency with respect to the Partnership. The indenture governing the Notes also contains covenants that limit, among other things, the ability of the Partnership and the Subsidiary Guarantors to (i) create liens on their principal properties; (ii) engage in sale and leaseback transactions; and (iii) merge or consolidate with another entity or sell, lease or transfer substantially all of their properties or assets to another entity. At June 30, 2011, the Partnership was in compliance with all covenants under the Notes.

Note payable to Anadarko. In December 2008, the Partnership entered into a five-year $175.0 million term loan agreement with Anadarko. The interest rate was fixed at 4.00% until November 2010. The term loan agreement was amended in December 2010 to fix the interest rate at 2.82% through maturity in 2013. The Partnership has the option, at any time, to repay the outstanding principal amount in whole or in part.

The provisions of the five-year term loan agreement contain customary events of default, including (i) non-payment of principal when due or non-payment of interest or other amounts within three business days of when due, (ii) certain events of bankruptcy or insolvency with respect to the Partnership and (iii) a change of control. At June 30, 2011, the Partnership was in compliance with all covenants under this agreement.

Revolving credit facility. In March 2011, the Partnership entered into an amended and restated $800.0 million senior unsecured revolving credit facility (the RCF) and borrowed $250.0 million under the RCF to repay the Wattenberg term loan (described below). The RCF amended and restated the Partnership s $450.0 million credit facility, which was originally entered into in October 2009. The RCF matures in March 2016 and bears interest at London Interbank Offered Rate, or LIBOR, plus applicable margins currently ranging from 1.30% to 1.90%, or an alternate base rate equal to the greatest of (a) the Prime Rate, (b) the Federal Funds Effective Rate plus 0.5%, and (c) LIBOR plus 1%, plus applicable margins currently ranging from 0.30% to 0.90%. The interest rate was 1.89% and 3.26% at June 30, 2011, and at December 31, 2010, respectively. The Partnership is required to pay a quarterly facility fee currently ranging from 0.20% to 0.35% of the commitment amount (whether used or unused), based upon the Partnership s consolidated leverage ratio, as defined in the RCF. The facility fee rate was 0.30% and 0.50% at June 30, 2011, and December 31, 2010, respectively.

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7. DEBT AND INTEREST EXPENSE (CONTINUED)

The RCF contains covenants that limit, among other things, the ability of the Partnership and certain of its subsidiaries to incur additional indebtedness, grant certain liens, merge, consolidate or allow any material change in the character of its business, sell all or substantially all of the Partnership s assets, make certain transfers, enter into certain affiliate transactions, make distributions or other payments other than distributions of available cash under certain conditions and use proceeds other than for partnership purposes. The RCF also contains various customary covenants, customary events of default and certain financial tests as of the end of each quarter, including a maximum consolidated leverage ratio (which is defined as the ratio of consolidated indebtedness as of the last day of a fiscal quarter to consolidated EBITDA for the most recent four consecutive fiscal quarters ending on such day) of 5.0 to 1.0, or a consolidated leverage ratio of 5.5 to 1.0 with respect to quarters ending in the 270-day period immediately following certain acquisitions, and a minimum consolidated interest coverage ratio (which is defined as the ratio of consolidated EBITDA for the most recent four consecutive fiscal quarters to consolidated interest expense for such period) of 2.0 to 1.0.

All amounts due under the RCF are unconditionally guaranteed by the Partnership s wholly owned subsidiaries. The Partnership will no longer be required to comply with the minimum consolidated interest coverage ratio as well as the subsidiary guarantees and certain of the aforementioned covenants, if the Partnership obtains two of the following three ratings: BBB- or better by S&P, Baa3 or better by Moody s, or BBB- or better by Fitch. As of June 30, 2011, no amounts were outstanding under the RCF, with $800.0 million available for borrowing. At June 30, 2011, the Partnership was in compliance with all covenants under the RCF.

Wattenberg term loan. In connection with the Wattenberg acquisition, in August 2010 the Partnership borrowed $250.0 million under a three-year term loan from a group of banks (Wattenberg term loan). The Wattenberg term loan incurred interest at LIBOR plus a margin ranging from 2.50% to 3.50% depending on the Partnership s consolidated leverage ratio as defined in the Wattenberg term loan agreement. The Partnership repaid the Wattenberg term loan in March 2011 using borrowings from its RCF and recognized $1.3 million of accelerated amortization expense related to its early repayment.

Interest-rate swap agreement. The Partnership entered into a forward-starting interest-rate swap agreement in March 2011 to mitigate the risk of rising interest rates prior to the issuance of the Notes. In May 2011, the Partnership issued the Notes and terminated the swap agreement, realizing a loss of $1.9 million, which is included in other expense, net in the Partnership s consolidated statements of income.

Interest expense. The following table summarizes the amounts included in interest expense:

	Three Months Ended June 30,	Six Months Ended June 30,
thousands		