Western Gas Partners LP
Form 10-Q
August 13, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the Period Ended June 30, 2008
Commission File No. 001-34046
WESTERN GAS PARTNERS, LP
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Organized in the State of Delaware	Employer Identification No. 26-1075808

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 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. (Check One):

Large accelerated filer o	Non-accelerated filer þ	Accelerated filer o	Smaller reporting company o
	(Do not check if 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 o No þ

There were 26,536,306 Common Units outstanding as of July 30, 2008.

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Identified Terms

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

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

Long ton*:* A British unit of weight equivalent to 2,240 pounds.

LTD*:* One long ton per day.

MMBtu*:* One million British Thermal Units.

MMBtu/d*:* One million British Thermal Units per day.

Natural gas*:* Hydrocarbon gas found in the earth composed of methane, ethane, butane, propane and other gases.

Sour gas*:* Natural gas containing more than four parts per million of hydrogen sulfide.

Tcf*:* One trillion cubic feet of natural gas.

Wellhead*:* The equipment at the surface of a well used to control the well s pressure; the point at which the hydrocarbons and water exit the ground.

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

Western Gas Partners, LP
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited, in thousands, except per-unit amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	**2007**	**2008**	**2007**
Revenues affiliates				
Gathering and transportation of natural gas	$ 27,155	$ 23,158	$ 54,102	$ 46,550
Condensate		1,945		4,362
Natural gas and other	3,482	112	3,998	645
Total revenues affiliates	30,637	25,215	58,100	51,557
Revenues third parties				
Gathering and transportation of natural gas	3,372	1,754	7,214	3,754
Condensate	5,541	63	10,860	225
Natural gas and other	70	200	1,672	1,617
Total revenues third parties	8,983	2,017	19,746	5,596
Total Revenues	39,620	27,232	77,846	57,153
Operating Expenses affiliates				
Cost of product	3,258	1,433	7,018	4,260
General and administrative	2,173	589	3,325	1,579
Total operating expenses affiliates	5,431	2,022	10,343	5,839
Operating Expenses third parties				
Cost of product	3,315		3,315	
Operation and maintenance	8,732	6,951	17,291	13,837
General and administrative	9	326	109	645
Property and other taxes	1,653	1,273	3,223	2,776
Total operating expenses third parties	13,709	8,550	23,938	17,258
Depreciation	6,554	5,371	13,010	10,743
Total Operating Expenses	25,694	15,943	47,291	33,840
Operating Income	13,926	11,289	30,555	23,313
Interest income (expense), net affiliates	1,685	(3,617)	(441)	(5,756)
Other income	27		31	

Income Before Income Taxes	15,638	7,672	30,145	17,557
Income Tax Expense	2,730	2,911	8,018	6,446
Net Income	$ 12,908	$ 4,761	$ 22,127	$ 11,111
Calculation of Limited Partner Interest in Net Income:				
Net income[(a)]	$ 8,249	n/a[(b)]	$ 8,249	n/a
Less general partner interest in net income	165	n/a	165	n/a
Limited partner interest in net income	$ 8,084	n/a	$ 8,084	n/a
Net income per limited partner unit basic	$ 0.15	n/a	$ 0.15	n/a
Net income per limited partner unit diluted	$ 0.15	n/a	$ 0.15	n/a
Limited partner units outstanding basic	53,072	n/a	53,072	n/a
Limited partner units outstanding diluted	53,103	n/a	53,103	n/a

(a) Reflective of general and limited partner interest in net income since closing of the Partnership s initial public offering. See Note 4, Net Income per Limited Partner Unit.

(b) Not applicable

See accompanying notes to the consolidated financial statements.

Western Gas Partners, LP
CONSOLIDATED BALANCE SHEETS
(Unaudited, in thousands, except number of units)

	June 30, 2008	December 31, 2007
ASSETS		
Current Assets		
Cash and cash equivalents	$ 25,788	$
Accounts receivable, net third parties	3,415	4,397
Accounts receivable, net affiliates	1,587	
Natural gas imbalance receivables third parties	881	899
Deferred income taxes	14	2,916
Other current assets	1,068	
Total current assets	32,753	8,212
Other Assets		27
Note Receivable Anadarko	260,000	
Property, Plant and Equipment		
Cost	498,704	483,896
Less accumulated depreciation	133,770	120,277
Net property, plant and equipment	364,934	363,619
Goodwill	4,783	4,783
Total Assets	$ 662,470	$ 376,641
LIABILITIES, PARTNERS CAPITAL AND PARENT NET EQUITY		
Current Liabilities		
Accounts payable	$ 762	$ 3,357
Natural gas imbalance payable third parties	4,791	2,104
Natural gas imbalance payable affiliates	305	
Accrued ad valorem taxes	3,173	1,100
Income taxes payable	4	313
Accrued liabilities	3,050	4,843
Total current liabilities	12,085	11,717
Long-Term Liabilities		
Deferred income taxes	372	76,423
Asset retirement obligations and other	8,144	7,185
Total long-term liabilities	8,516	83,608
Total Liabilities	20,601	95,325

Partners Capital and Parent Net Equity		
Common units (26,536,306 units issued and outstanding at June 30, 2008)	374,248	
Subordinated units (26,536,306 units issued and outstanding at June 30, 2008)	257,120	
General partner units (1,083,115 units issued and outstanding at June 30, 2008)	10,501	
Parent net investment		281,316
Total Partners Capital and Parent Net Equity	641,869	281,316
Total Liabilities, Partners Capital and Parent Net Equity	$ 662,470	$ 376,641

See accompanying notes to the consolidated financial statements.

Western Gas Partners, LP
CONSOLIDATED STATEMENT OF PARENT NET EQUITY AND PARTNERS CAPITAL
(Unaudited, in thousands)

		Partners Capital			
	Parent Net	Limited Partners		General	
	Investment	Common	Subordinated	Partner	Total
Balance at December 31, 2007	$ 281,316	$	$	$	$ 281,316
Net income attributable to the period from January 1, 2008 through May 13, 2008	13,878				13,878
Reimbursement of capital expenditures by parent	(45,346)				(45,346)
Elimination of net deferred tax liabilities	76,500				76,500
Net advance to parent	(8,139)				(8,139)
Contribution of net assets to Western Gas Partners, LP	(318,209)	54,638	253,235	10,336	
Issuance of common units to public, net of offering and other costs		315,346			315,346
Non-cash equity-based compensation		65			65
Net income attributable to the period from May 14, 2008 through June 30, 2008		4,199	3,885	165	8,249
Balance at June 30, 2008	$	$ 374,248	$ 257,120	$ 10,501	$ 641,869

See accompanying notes to the consolidated financial statements.

Western Gas Partners, LP
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited, in thousands)

	Six Months Ended June 30, 2008	2007
Cash Flow from Operating Activities		
Net income	$ 22,127	$ 11,111
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	13,010	10,743
Deferred income taxes	3,351	6,262
Changes in assets and liabilities:		
Increase in accounts receivable	(605)	(595)
Decrease in natural gas imbalance receivable	18	516
Increase (decrease) in accounts payable and accrued expenses	1,303	(3,854)
Increase (decrease) in other items, net	(976)	(49)
Net cash provided by operating activities	38,228	24,134
Cash Flow from Investing Activities		
Capital expenditures	(14,301)	(21,842)
Loan to Anadarko	(260,000)	
Net cash used in investing activities	(274,301)	(21,842)
Cash Flow from Financing Activities		
Proceeds from issuance of common units	315,346	
Reimbursement of capital expenditures to parent	(45,346)	
Net advance to parent	(8,139)	(2,748)
Net cash provided by (used in) financing activities	261,861	(2,748)
Net Increase (Decrease) in Cash	25,788	(456)
Cash and Cash Equivalents at Beginning of Period		458
Cash and Cash Equivalents at End of Period	$ 25,788	$ 2
Supplemental Disclosures		
Significant non-cash investing and financing transactions:		
Contribution of net assets to Western Gas Partners, LP from parent	$ 318,209	$
Elimination of net deferred tax liabilities	$ 76,500	$
Property, plant and equipment contributed by parent	$	$ 19,789
Decrease in accrued capital expenditures	$ 934	$ 2,633

See accompanying notes to the consolidated financial statements.

Notes to consolidated financial statements of Western Gas Partners, LP
(Unaudited)

1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

Western Gas Partners, LP (the Partnership) is a Delaware limited partnership formed in August 2007. As of June 30, 2008, the Partnership s assets consisted of six gathering systems, five natural gas treating facilities and one interstate pipeline. The Partnership s assets are located in East and West Texas, the Rocky Mountains (Utah and Wyoming) and the Mid-Continent (Kansas and Oklahoma). The Partnership is engaged in the business of gathering, compressing, treating and transporting natural gas for Anadarko Petroleum Corporation and its consolidated subsidiaries (Anadarko) and third-party producers and customers. The Partnership s general partner is Western Gas Holdings, LLC, a wholly owned subsidiary of Anadarko.

On May 14, 2008 (the Closing Date), the Partnership closed its initial public offering of 18,750,000 common units at a price of $16.50 per unit. On June 11, 2008, the Partnership issued an additional 2,060,875 common units to the public pursuant to the partial exercise of the underwriters over-allotment option (collectively, the Offering). The common units are listed on the New York Stock Exchange under the symbol WES. The Partnership received gross proceeds of $343.4 million from the Offering, less $22.3 million for underwriting discounts and structuring fees. The Partnership used the balance of the gross offering proceeds as follows:

- Ø approximately $5.7 million to pay offering expenses;
- Ø approximately $45.4 million to reimburse Anadarko for capital expenditures it incurred with respect to assets contributed to the Partnership;
- Ø $260.0 million loaned to Anadarko in exchange for a 30-year note bearing interest at a fixed annual rate of 6.50%; and
- Ø $10.0 million retained for general partnership purposes.

As of June 30, 2008, the Partnership had outstanding 26,536,306 common units, 26,536,306 subordinated units, and 1,083,115 general partner units, in addition to Incentive Distribution Rights (IDRs). IDRs entitle the holder to specified increasing percentages of cash distributions as the Partnership s per-unit cash distributions increase. The common units issued to the public represent an aggregate 38.4% limited partner interest in the Partnership, based on the number of limited partner units outstanding as of June 30, 2008.

Concurrent with closing of the Offering, Anadarko contributed the assets and liabilities of Anadarko Gathering Company LLC (AGC), Pinnacle Gas Treating LLC (PGT) and MIGC LLC (MIGC) to the Partnership in exchange for the 1,083,115 general partner units, representing a 2.0% general partner interest in the Partnership, 100% of the IDRs, and 5,725,431 common units and 26,536,306 subordinated units, together representing an aggregate 59.6% limited partner interest in the Partnership, based on the number of limited partner units outstanding as of June 30, 2008. The common units held by Anadarko include 751,625 common units issued following the expiration of the underwriters over-allotment option and represent the portion of the common units which were not exercised by the underwriters under the option. See Note 3, Partnership Equity and Distributions, for information related to the distribution rights of the common and subordinated unitholders and to the IDRs held by the general partner.

The information furnished herein reflects all normal recurring adjustments that are, in the opinion of management, necessary for a fair statement of financial position as of June 30, 2008 and December 31, 2007, the results of operations for the three months ended June 30, 2008 and 2007 and for the six months ended June 30, 2008 and 2007, changes in partners capital and parent net equity for the six months ended June 30, 2008 and statements of cash flows for the six months ended June 30, 2008 and 2007. Certain amounts in prior periods have been reclassified to conform to the current presentation.

The accompanying unaudited consolidated financial statements of the Partnership have been prepared in accordance with accounting principles generally accepted in the United States and include the historical cost-basis accounts of AGC, PGT and MIGC, which were contributed to the Partnership by Anadarko in connection with the Offering, for the periods prior to May 14, 2008. The consolidated financial statements for periods prior to the Closing Date have

been prepared from the separate records maintained by Anadarko and may not necessarily be indicative of the actual results of operations that might have occurred if the Partnership had operated separately during the periods reported. The Partnership as used herein refers to the consolidated financial results and operations of AGC, PGT

Notes to consolidated financial statements of Western Gas Partners, LP
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and MIGC from their inception through the date of their contribution to the Partnership and to the Partnership thereafter. Financial results for the Partnership for the three months ended June 30, 2008 and for the six months ended June 30, 2008 are not necessarily indicative of the results that may be expected for the full year ending December 31, 2008.

The Partnership s costs of doing business incurred by Anadarko on behalf of the Partnership have been reflected in the accompanying financial statements. These costs include general and administrative expenses charged by Anadarko to the Partnership in exchange for:

- business services, such as payroll, accounts payable and facilities management;
- corporate services, such as finance and accounting, legal, human resources, investor relations and public and regulatory policy;
- executive compensation, but not including share-based compensation for periods ending prior to the Closing Date; and
- pension and other post-retirement benefit costs.

Transactions between the Partnership and Anadarko have been identified in the consolidated financial statements as transactions between affiliates. Please see Note 5, Transactions with Affiliates.

The accompanying consolidated financial statements and notes should be read in conjunction with the Partnership s Registration Statement on Form S-1, as amended, filed with the Securities and Exchange Commission on April 25, 2008.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of estimates

To conform to accounting principles generally accepted in the United States, management makes estimates and assumptions that affect the amounts reported in the consolidated financial statements and the notes thereto. These estimates are evaluated on an ongoing basis, utilizing historical experience and other methods considered reasonable in the particular circumstances. Although these estimates are based on management s best available knowledge at the time, actual results could differ.

Effects on the Partnership s business, financial position and results of operations resulting from revisions to estimates are recognized when the facts that give rise to the revision become known. Changes in facts and circumstances or discovery of new facts or circumstances may result in revised estimates and actual results may differ from these estimates.

Property, plant and equipment

Property, plant and equipment are stated at the lower of historical cost less accumulated depreciation or fair value, if impaired. The Partnership capitalizes all construction-related direct labor and material costs. The cost of renewals and betterments that extend the useful life of property, plant and equipment is also capitalized. The cost of repairs, replacements and major maintenance projects which do not extend the useful life or increase the expected output of property, plant and equipment is expensed as it is incurred. Depreciation is computed over the asset s estimated useful life using the straight-line method or half-year convention method.

The Partnership evaluates whether long-lived assets have been impaired and determines if the carrying amount of its assets may not be recoverable. For such long-lived assets, impairment exists 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.

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Fair value represents the estimated price between market participants to sell an asset in the principal or most advantageous market for the asset, based on assumptions a market participant would make. When warranted, management assesses the fair value of long-lived assets using commonly accepted techniques and may use more than one source in making such assessments. Sources used to determine fair value include, but are not limited to, recent third-party comparable sales, internally developed discounted cash flow analyses and analyses from outside advisors. Significant changes, such as changes in commodity prices, the condition of an asset, or management s intent to utilize the asset generally require management to reassess the cash flows related to long-lived assets.

No long-lived asset impairment has been recognized in these consolidated financial statements.

Goodwill

Goodwill represents the excess of the purchase price of an entity over the estimated fair value of the identifiable assets acquired and liabilities assumed. During 2006, the Partnership recognized goodwill of $4.8 million in connection with the acquisition of MIGC. None of this goodwill is deductible for income tax purposes.

The Partnership evaluates whether goodwill has been impaired. Impairment testing is performed annually, unless facts and circumstances make it necessary to test more frequently. The Partnership has determined that it has one operating segment and two reporting units and, accordingly, goodwill is assessed for impairment at the reporting unit level. Goodwill impairment assessment is a two-step process. Step one focuses on identifying a potential impairment by comparing the fair value of the reporting unit with the carrying amount of the reporting unit. If the fair value of the reporting unit exceeds its carrying amount, no further action is required. However, if the carrying amount of the reporting unit exceeds its fair value, step two of the process is performed, and goodwill is written down to the implied fair value of the goodwill through a charge to operating expense.

No goodwill impairment has been recognized in these consolidated financial statements.

Asset retirement obligations

The Partnership recognizes a liability based on the estimated costs of retiring tangible long-lived assets. The liability is recognized at the fair value of the asset retirement obligation when the obligation is incurred, which generally is when an asset is acquired or constructed. The carrying amount of the associated asset is increased commensurate with the liability recognized. Subsequent to the initial recognition, the liability is adjusted for any changes in the expected value of the retirement obligation (with corresponding adjustments to property, plant and equipment) and for accretion of the liability due to the passage of time, until the obligation is settled. If the fair value of the estimated asset retirement obligation changes, an adjustment is recorded for both the asset retirement obligation and the associated asset carrying amount.

Revenue recognition

The Partnership provides gathering and treating services pursuant to fee-based contracts. Under these arrangements, the Partnership is paid a fixed fee based on the volume and thermal content of the natural gas it gathers or treats and recognizes gathering and treating revenues for its services at the time the service is performed.

Under certain gathering agreements, the Partnership retains and sells condensate, which is recovered from the natural gas stream during the gathering process, and compensates the shippers with a thermally equivalent volume of natural gas. The Partnership recognizes revenue from the sale of this condensate upon transfer of title.

The Partnership earns transportation revenues through firm contracts that obligate each of its customers to pay a monthly reservation or demand charge regardless of the pipeline capacity used by that customer. An additional commodity usage fee is charged to the customer based on the actual volume of natural gas transported. Revenues are also generated from interruptible contracts pursuant to which a fee is charged to the customer based on volumes transported through the pipeline. Revenues for transportation of natural gas are recognized over the period of firm transportation contracts or, in the case of usage fees and interruptible contracts, when the

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volumes are received into the pipeline. From time to time, certain revenues may be subject to refund pending the outcome of rate matters before the Federal Energy Regulatory Commission and reserves are established where appropriate. During the periods presented herein, there were no pending rate cases and no related reserves have been established.

Natural gas imbalances

The consolidated balance sheets include natural gas imbalance receivables or payables resulting from differences in gas volumes received into the Partnership s systems and gas volumes delivered by the Partnership to customers. Natural gas volumes owed to or by the Partnership that are subject to tariffs are valued at market index prices, as of the balance sheet dates, and are subject to cash settlement procedures. Other natural gas volumes owed to or by the Partnership are valued at the Partnership s weighted average cost of natural gas as of the balance sheet dates and are settled in-kind. As of June 30, 2008, natural gas imbalance receivables and payables were approximately $881,000 and $5.1 million, respectively. As of December 31, 2007, natural gas imbalance receivables and payables were approximately $899,000 and $2.1 million, respectively.

Environmental expenditures

The Partnership expenses environmental expenditures related to conditions caused by past operations that do not generate current or future revenues. Environmental expenditures related to operations that generate current or future revenues are expensed or capitalized, as appropriate. Liabilities are recorded when the necessity for environmental remediation becomes probable and the costs can be reasonably estimated, or when other potential environmental liabilities are probable and may be reasonably estimated.

Cash equivalents

The Partnership considers all highly liquid investments with an original maturity date of three months or less to be cash equivalents. The Partnership had approximately $25.8 million of cash or cash equivalents as of June 30, 2008 and no cash or cash equivalents as of December 31, 2007.

Bad-debt reserve

The Partnership transacts its business primarily with Anadarko, for which no credit limit is maintained. The Partnership analyzes its exposure to bad debt on a customer-by-customer basis for its third-party accounts receivable and may establish credit limits for significant third-party customers. For third-party accounts receivable, the amount of bad-debt reserve at June 30, 2008 and December 31, 2007 was approximately $78,000 and $41,000, respectively.

Equity-based compensation

Concurrent with closing of the Offering, awards of phantom units were granted to independent directors of the general partner under the Western Gas Partners, LP 2008 Long-Term Incentive Plan (LTIP), which permits the issuance of up to 2,250,000 units. Upon vesting of each phantom unit, the holder will receive common units of the Partnership or, at the discretion of the general partner s board of directors, the holders will receive cash for an amount equal to the fair market value of common units of the Partnership at the time of vesting. Share-based compensation expense attributable to grants made pursuant to the LTIP will impact the Partnership s cash flow from operating activities only to the extent the general partner s board of directors elects to make a cash payment to a participant in lieu of the issuance of common units upon the lapse of the vesting period.

Statement of Financial Accounting Standards (SFAS) No. 123(R), *Share-Based Payment (revised 2004)*, (SFAS 123(R)), requires companies to recognize stock-based compensation as an operating expense. The Partnership amortizes the expense associated with awards issued pursuant to the LTIP over their vesting periods.

Additionally, the Partnership s general and administrative expenses include equity-based compensation costs allocated by Anadarko to the Partnership for grants made pursuant to the Western Gas Holdings, LLC Equity Incentive Plan (Incentive Plan) as well as the

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Anadarko Petroleum Corporation 1999 Stock Incentive Plan and the Anadarko Petroleum Corporation 2008 Omnibus Incentive Compensation Plan (Anadarko s plans are collectively referred to as the Anadarko Incentive Plans). The incentive units issued pursuant to the Incentive Plan are subject to time restrictions that lapse ratably over three years and become payable in cash by the general partner three days prior to the ten-year anniversary of the grant date or earlier in connection with certain other events. Equity-based compensation expense attributable to grants made pursuant to the Incentive Plan will impact the Partnership s cash flow from operating activities only to the extent cash payments are made to Incentive Plan participants and such cash payments do not cause total annual reimbursements made by the Partnership to Anadarko pursuant to the omnibus agreement described in Note 5, Transactions with Affiliates, to exceed the general and administrative expense limit set forth therein for the periods to which such expense limit applies.

Income taxes

The Partnership generally is not subject to federal or state income tax. The Partnership is subject to a Texas margin tax and recognizes this tax expense in its consolidated financial statements. Prior to closing of the Offering, tax expense was recorded for income related to the assets that Anadarko contributed to the Partnership at the Closing Date. For periods prior to the Closing Date, deferred federal and state income taxes were provided on temporary differences between the financial statement carrying amounts of recognized assets and liabilities and their respective tax bases as if the Partnership filed tax returns as a stand-alone entity. For periods subsequent to the Closing Date, the Partnership will make payments to Anadarko pursuant to the tax sharing arrangement entered into between Anadarko and the Partnership for its share of Texas margin tax that are included in any combined or consolidated returns filed by Anadarko.

Net income per limited partner unit

Emerging Issues Task Force (EITF) Issue 03-6, *Participating Securities and the Two-Class Method Under FASB Statement No. 128* (EITF 03-6), addresses the computation of earnings per share by entities that have issued securities other than common stock that contractually entitle the holder to participate in dividends and earnings of the entity when, and if, it declares dividends on its securities. EITF 03-6 requires that securities that meet the definition of a participating security be considered for inclusion in the computation of basic earnings per unit using the two-class method. Under the two-class method, earnings per unit is calculated as if all of the earnings for the period were distributed under the terms of the partnership agreement, regardless of whether the general partner has discretion over the amount of distributions to be made in any particular period, whether those earnings would actually be distributed during a particular period from an economic or practical perspective, or whether the general partner has other legal or contractual limitations on its ability to pay distributions that would prevent it from distributing all of the earnings for a particular period.

EITF 03-6 does not impact the Partnership s overall net income or other financial results; however, in periods in which aggregate net income exceeds the Partnership s aggregate distributions for such period, it will have the impact of reducing net income per limited partner unit. This result occurs as a larger portion of the Partnership s aggregate earnings, as if distributed, is allocated to the incentive distribution rights of the general partner, even though the Partnership makes distributions on the basis of available cash and not earnings. In periods in which the Partnership s aggregate net income does not exceed its aggregate distributions for such period, EITF 03-6 does not have any impact on the Partnership s calculation of earnings per limited partner unit.

New accounting standards

SFAS No. 157, Fair Value Measurements (SFAS 157). In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS 157, which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS 157 does not require any new fair value measurements. However, in some cases, the application of SFAS 157 changed the Partnership s historical practice for measuring fair values under other accounting pronouncements that require or permit fair value measurements. As originally issued, SFAS 157 was effective as of January 1, 2008 and must be applied prospectively, except in certain cases, for the Partnership. The FASB issued FSP FAS 157-2, which delayed the effective date of SFAS 157 to January 1, 2009 for

nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the

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financial statements on a recurring basis (at least annually). The Partnership fully adopted SFAS 157 effective January 1, 2008. Adoption of SFAS 157 did not have a material impact on the Partnership s consolidated results of operations, cash flows or financial position.

Recently issued accounting standards not yet adopted

The following new accounting standards have been issued, but had not been adopted as of June 30, 2008:

SFAS No. 141 (revised 2007), Business Combinations (SFAS 141(R)). In December 2007, the FASB issued SFAS 141(R) which applies fair value measurement in accounting for business combinations, expands financial disclosures, defines an acquirer and modifies the accounting for some items for business combinations. An acquirer will be required to record 100% of assets and liabilities, including goodwill, contingent assets and contingent liabilities, at their fair value. This replaces the cost allocation process applied under SFAS 141. In addition, contingent consideration must also be recognized at fair value at the acquisition date. Acquisition-related costs will be expensed rather than treated as an addition to the assets being acquired and restructuring costs will be recognized separately from the business combination. SFAS 141(R) will apply to the Partnership prospectively for business combinations with an acquisition date on or after January 1, 2009.

EITF Issue No. 07-4, Application of the Two-Class Method under FASB Statement No. 128, Earnings per Share, to Master Limited Partnerships (EITF 07-4). In March 2008, the EITF issued EITF 07-4 addressing the application of the two-class method under SFAS 128 in determining income per unit for master limited partnerships having multiple classes of securities including limited partnership units, general partnership units and, when applicable, IDRs of the general partner. EITF 07-4 clarifies that the two-class method would apply. Further, EITF 07-4 states that undistributed earnings should be allocated to the general partner, limited partners and IDR holders as if undistributed earnings were available cash. EITF 07-4 is effective for the Partnership on January 1, 2009 and will be applied with respect to all periods for which earnings per unit is presented.

3. PARTNERSHIP EQUITY AND DISTRIBUTIONS