

ATLAS PIPELINE PARTNERS LP
Form 10-Q
May 10, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2005

OR

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

For the transition period from _____ to _____

Commission file number: **1-4998**

ATLAS PIPELINE PARTNERS, L.P.
(Exact name of registrant as specified in its charter)

DELAWARE

(State or other jurisdiction of incorporation or organization)

23-3011077

(I.R.S. Employer Identification No.)

311 Rouser Road
Moon Township, Pennsylvania

(Address of principal executive office)

15108

(Zip code)

Registrant's telephone number, including area code: **(412) 262-2830**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No o

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes x No o

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ATLAS PIPELINE PARTNERS, L.P. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in thousands, except unit data)
(Unaudited)

ASSETS	March 31, 2005	December 31, 2004
Current assets:		
Cash and cash equivalents	\$ 9,695	\$ 18,214
Accounts receivable—affiliates	—	1,496
Accounts receivable	16,566	13,769
Prepaid expenses	1,155	1,056
Total current assets	27,416	34,535
Property, plant and equipment, net	179,847	175,259
Goodwill (net of accumulated amortization of \$285)	2,305	2,305
Other assets	6,319	4,686
	\$ 215,887	\$ 216,785
LIABILITIES AND PARTNERS' CAPITAL		
Current liabilities:		
Current portion of long-term debt	\$ 2,303	\$ 2,303
Accrued liabilities	2,677	2,619
Hedge liability	8,673	1,959
Accrued producer liabilities	12,456	10,996
Accounts payable	1,395	2,341
Accounts payable - affiliates	963	—
Distribution payable	6,904	6,467
Total current liabilities	35,371	26,685
Other long-term liabilities	3,160	1,247
Long-term debt, less current portion	51,570	52,149
Commitments and contingencies	—	—
Partners' capital:		
Common unitholders; 7,204,790 and 5,563,659 units outstanding	133,192	135,759
Subordinated unitholder, 0 and 1,641,026 units outstanding	—	2
General partner	2,181	2,261

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Accumulated other comprehensive loss	(9,587)	(1,318)
Total partners' capital	125,786	136,704
	\$ 215,887	\$ 216,785

See accompanying notes to consolidated financial statements

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ATLAS PIPELINE PARTNERS, L.P. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE THREE MONTHS ENDED MARCH 31, 2005 AND 2004
(in thousands, except per unit data)
(Unaudited)

	2005	2004
Revenues:		
Natural gas and liquids	\$ 42,334	\$ -
Transportation and compression - affiliates	4,847	4,193
Transportation and compression - third party	15	17
Interest income and other	81	36
Total revenues and other income	47,277	4,246
Costs and expenses:		
Natural gas and liquids	35,459	-
Plant operating	1,204	-
Transportation and compression	676	607
General and administrative	1,975	468
Compensation reimbursement - affiliates	513	113
Terminated acquisition costs	136	-
Depreciation and amortization	1,929	518
Interest	1,135	63
Total costs and expenses	\$ 43,027	\$ 1,769
Net income	\$ 4,250	\$ 2,477
Net income - limited partners	\$ 2,830	\$ 2,122
Net income - general partner	\$ 1,420	\$ 355
Basic and diluted net income per limited partner unit	\$.39	\$.49
Weighted average limited partner units outstanding	7,205	4,355

See accompanying notes to consolidated financial statements

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ATLAS PIPELINE PARTNERS, L.P. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF PARTNERS' CAPITAL
FOR THE THREE MONTHS ENDED MARCH 31, 2005
(in thousands, except unit data)
(Unaudited)

	Number of Limited Partner Units				Accumulated Other Comprehensive Loss		Total Partners' Capital
	Common	Subordinated	Common	Subordinated	Partner		
Balance at January 1, 2005	5,563,659	1,641,026	\$ 135,759	\$ 2	2,261	\$ (1,318)	\$ 136,704
Conversion of subordinated units	1,641,026	(1,641,026)	2	(2)	-	-	-
Issuance of common units	105	-	5	-	-	-	5
Distribution payable	-	-	(5,404)	-	(1,500)	-	(6,904)
Other comprehensive loss	-	-	-	-	-	(8,269)	(8,269)
Net income	-	-	2,830	-	1,420	-	4,250
Balance at March 31, 2005	7,204,790	-	\$ 133,192	\$ -	\$ 2,181	\$ (9,587)	\$ 125,786

See accompanying notes to consolidated financial statements

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ATLAS PIPELINE PARTNERS, L.P. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2005 AND 2004
(in thousands)
(Unaudited)

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 4,250	\$ 2,477
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,929	518
Non-cash gain on derivative value	(75)	-
Non-cash compensation on long-term incentive plan	449	-
Loss on disposal of fixed assets	3	-
Amortization of deferred finance costs	182	37
Change in operating assets and liabilities:		
Increase in accounts receivable and prepaid expenses	(2,746)	(147)
Increase (decrease) in accounts payable and accrued liabilities	459	(261)
Increase in accounts payable/(decrease) in accounts receivable - affiliates	2,459	(1,304)
Net cash provided by operating activities	6,910	1,320
CASH FLOWS FROM INVESTING ACTIVITIES:		
Spectrum purchase price adjustment	(526)	-
Capital expenditures	(6,077)	(1,185)
Increase in other assets	(475)	(120)
Proceeds from sale of fixed assets	49	-
Net cash used in investing activities	(7,029)	(1,305)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments on long-term debt	(579)	-
Distributions paid to partners	(6,467)	(3,073)
Increase in other assets	(1,354)	(41)
Net cash used in financing activities	(8,400)	(3,114)
Decrease in cash and cash equivalents	(8,519)	(3,099)
Cash and cash equivalents, beginning of period	18,214	15,078
Cash and cash equivalents, end of period	\$ 9,695	\$ 11,979

See accompanying notes to consolidated financial statements

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ATLAS PIPELINE PARTNERS, L.P. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2005
(Unaudited)

NOTE 1 - BASIS OF PRESENTATION

The consolidated financial statements of the Partnership and its wholly-owned subsidiaries as of March 31, 2005 and for the three month periods ended March 31, 2005 and 2004 are unaudited. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted in this Form 10-Q pursuant to the rules and regulations of the Securities and Exchange Commission. However, in the opinion of management, these interim financial statements include all the necessary adjustments to fairly present the results of the interim periods presented. The unaudited interim consolidated financial statements should be read in conjunction with the audited financial statements included in the Partnership's Annual Report on Form 10-K for the year ended December 31, 2004. The results of operations for the three month period ended March 31, 2005 may not necessarily be indicative of the results of operations for the full year ending December 31, 2005.

Certain reclassifications have been made to the consolidated financial statements as of and for the three month period ended March 31, 2004 to conform to the presentation for the three month period ended March 31, 2005.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

In addition to matters discussed further in this note, the Partnership's significant accounting policies are detailed in its audited consolidated financial statements and notes thereto in the Partnership's annual report on Form 10-K for the year ended December 31, 2004 filed with the securities and Exchange Commission.

Net Income Per Unit

Net income per limited partner unit is based on the weighted average number of common and subordinated units outstanding during the period. Basic net income per limited partner unit is computed by dividing net income, after deducting the general partner's 2% and incentive distributions, by the weighted average number of outstanding common units and subordinated units. Diluted net income per limited partner unit is computed by dividing net income attributable to limited partners by the sum of the weighted average number of common and subordinated units outstanding and the weighted average number of phantom units during the period. Phantom units consist of common units issuable under the terms of the Partnership's Long-Term Incentive Plan.

Phantom units issued and outstanding through March 31, 2005 totaling 125,201, were not included in the computation of diluted net income per limited partner unit for the three months ended March 31, 2005 and 2004 as their effect would have been anti-dilutive.

On January 1, 2005, 1,641,026 subordinated units held by the General Partner converted to common units in accordance with the terms of the partnership agreement.

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ATLAS PIPELINE PARTNERS, L.P. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
MARCH 31, 2005
(Unaudited)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**Receivables**

In evaluating its allowance for possible losses, the Partnership performs ongoing credit evaluations of its customers and adjusts credit limits based upon payment history and the customer's current creditworthiness, as determined by the Partnership's review of its customers' credit information. The Partnership extends credit on an unsecured basis to many of its energy customers. At March 31, 2005 and December 31, 2004, the Partnership's credit evaluation indicated that it has no need for an allowance for possible losses.

Comprehensive Income (Loss)

Comprehensive income (loss) includes net income and all other changes in the equity of a business during a period from transactions and other events and circumstances from non-owner sources. These changes, other than net income, are referred to as "other comprehensive income (loss)" and for the Partnership includes only changes in the fair value of unrealized hedging contracts.

		Three Months Ended March 31,	
		2005	2004
		(in thousands)	
Net income	\$	4,250	\$ 2,477
Other comprehensive loss:			
Unrealized loss on hedging contracts		(8,938)	-
Add: reclassification adjustment for losses realized in net income		669	-
		(8,269)	-
Comprehensive (loss) income	\$	(4,019)	\$ 2,477

Cash Flow Statements

For purposes of the statements of cash flows, all highly liquid debt instruments purchased with a maturity of three months or less are considered to be cash equivalents. The following table sets forth supplemental disclosures of cash flow information (in thousands):

		Three Months Ended March 31,	
		2005	2004
Cash paid during the period for:			
Interest	\$	287	\$ 51
Non-cash activities include the following:			

Issuance of common units under
Long-Term Incentive Plan

\$	5
\$	-
8	
<hr/>	

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ATLAS PIPELINE PARTNERS, L.P. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
MARCH 31, 2005
(Unaudited)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Segment Information

The Partnership has two business segments: natural gas gathering and transmission located in the Appalachian Basin area ("Appalachia") and gathering and processing located in the Mid-Continent-Velma area ("Mid-Continent-Velma"). Appalachian revenues are, for the most part, based on contractual arrangements with Atlas America, Inc ("Atlas") and its affiliates. Mid-Continent-Velma revenues are, for the most part, derived from the sale of residue gas and natural gas liquids ("NGLs") to purchasers at the tailgate of the processing plant (see Note 14).

Revenue Recognition

Because there are timing differences between the delivery of natural gas, NGLs and oil and the Partnership's receipt of a delivery statement, the Partnership has unbilled revenues. These revenues are accrued based upon volumetric data from the Partnership's records and the Partnership's estimates of the related transportation and compression fees which are, in turn, based upon applicable product prices. The Partnership had unbilled revenues at March 31, 2005 and December 31, 2004 of \$15.5 million and \$13.4 million, respectively, related to its Mid-Continent-Velma operations, which are included in accounts receivable on its Consolidated Balance Sheets. The Partnership has unbilled revenues at March 31, 2005 and December 31, 2004 of \$3.3 million and \$1.9 million, respectively, related to its Appalachia operations, which is included in accounts receivable-/accounts payable- affiliates on its Consolidated Balance Sheets.

Goodwill

Goodwill is evaluated for impairment in accordance with Statement of Financial Accounting Standards ("SFAS") No. 142. All goodwill is associated with the Partnership's Appalachian operations. The Partnership evaluates its goodwill at least annually and will reflect the impairment of goodwill, if any, in operating income in the income statement in the period in which the impairment is indicated.

New Accounting Standards

In April 2005, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 47, Accounting for Conditional Asset Retirement Obligations (FIN 47), which will result in (a) more consistent recognition of liabilities relating to asset retirement obligations, (b) more information about expected future cash outflows associated with those obligations, and (c) more information about investments in long-lived assets because additional asset retirement costs will be recognized as part of the carrying amounts of the assets. FIN 47 clarifies that the term conditional asset retirement obligation as used in Statement FAS No. 143, Accounting for Asset Retirement Obligations, refers to a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. The obligation to perform the asset retirement activity is unconditional even though uncertainty exists about the timing and (or) method of settlement. Uncertainty about the timing and (or) method of settlement of a conditional asset retirement obligation should be factored into the measurement of the liability when sufficient information exists. FIN 47 also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. FIN 47 is effective no later than the end of fiscal years ending after December 15, 2005. Retrospective application of interim financial information is permitted but is not required. Early adoption of this interpretation is encouraged. As

FIN 47 was recently issued, the Partnership has not determined whether the interpretation will have a significant adverse effect on its financial position or results of operations.

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ATLAS PIPELINE PARTNERS, L.P. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
MARCH 31, 2005
(Unaudited)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**New Accounting Standards - (Continued)**

In December 2004, the FASB issued Statement No. 123 (R) (revised 2004) Share-Based Payment, which is a revision of SFAS No. 123, Accounting for Stock-Based Compensation. Statement 123 (R) supersedes Accounting Principal Board Opinion (APB) No. 25, Accounting for Stock Issued to Employees, and amends SFAS No. 95, Statement of Cash Flows. Generally, the approach to accounting in Statement 123 (R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values. Currently the Partnership accounts for these payments under the intrinsic value provisions of APB No. 25 with no expense recognition in the financial statements. Statement 123 (R) is effective for the Partnership beginning January 1, 2006. The statement offers several alternatives for implementation. At this time, management has not made a decision as to the alternative it may select.

NOTE 3 - FAIR VALUE OF FINANCIAL INSTRUMENTS**Concentration of Credit Risk**

Financial instruments, which potentially subject the Partnership to concentrations of credit risk, consist principally of periodic temporary investments of cash. The Partnership places its temporary cash investments in high quality short-term money market instruments and deposits with high quality financial institutions. At March 31, 2005, the Partnership and its subsidiaries had \$12.5 million in deposits at two banks, of which \$12.2 million was over the insurance limit of the Federal Deposit Insurance Corporation. No losses have been experienced on such investments.

For cash and cash equivalents, receivables and payables, the carrying amounts approximate fair values because of the short maturity of these instruments. The carrying value of long-term debt approximates fair market value since interest rates approximate current market rates.

The following table sets forth the book and estimated fair values of derivative instruments at the dates indicated (in thousands):

	March 31, 2005		December 31, 2004	
	Book Value	Fair Value	Book Value	Fair Value
Assets				
Derivative instruments	\$ 156	\$ 156	\$ 54	\$ 54
	\$ 156	\$ 156	\$ 54	\$ 54
Liabilities				
Derivative instruments	\$ (10,975)	\$ (10,975)	\$ (2,681)	\$ (2,681)
	\$ (10,975)	\$ (10,975)	\$ (2,681)	\$ (2,681)
	\$ (10,819)	\$ (10,819)	\$ (2,627)	\$ (2,627)

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ATLAS PIPELINE PARTNERS, L.P. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
MARCH 31, 2005
(Unaudited)

NOTE 4 - DISTRIBUTION DECLARED

The Partnership will generally make quarterly cash distributions of substantially all of its available cash, generally defined as cash on hand at the end of the quarter less cash reserves deemed appropriate to provide for future operating costs, potential acquisitions and future distributions.

On March 8, 2005, the Partnership declared a cash distribution of \$.75 per unit on its outstanding common units. The distribution represents the estimated available cash for the three months ended March 31, 2005. The \$6.9 million distribution, which includes a distribution of \$1.5 million to the general partner, will be paid on May 13, 2005 to unitholders of record on March 31, 2005.

NOTE 5 - PROPERTY, PLANT AND EQUIPMENT

The following is a summary of property, plant and equipment at the dates indicated (in thousands):

	March 31, 2005	December 31, 2004
Pipelines, processing and compression facilities	\$ 174,251	\$ 168,932
Rights of way	15,107	14,128
Buildings	3,282	3,215
Furniture and equipment	521	517
Other	444	307
	193,605	187,099
Less - accumulated depreciation	(13,758)	(11,840)
	\$ 179,847	\$ 175,259

Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over the estimated useful lives of the assets using the straight-line method. The estimated service lives of property and equipment are principally as follows:

Pipelines, processing and compression facilities	15-20 years
Rights of way-Appalachia	20 years
R i g h t s o f way-Mid-Continent-Velma	40 years
Buildings	40 years
Furniture and equipment	3-7 years
Other	3-10 years

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ATLAS PIPELINE PARTNERS, L.P. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
MARCH 31, 2005
(Unaudited)

NOTE 6 - OTHER ASSETS

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

	March 31, 2005	December 31, 2004
Deferred finance costs, net of accumulated amortization of \$688 and \$506	\$ 4,488	\$ 3,316
Security deposits	1,299	1,356
Acquisition costs-Elk City (see note 15)	532	-
Other	-	14
	\$ 6,319	\$ 4,686

Deferred finance costs are recorded at cost and amortized over the five-year term of the associated debt, which expires on July 15, 2009.

NOTE 7 -SPECTRUM ACQUISITION

On July 16, 2004, the Partnership acquired Spectrum Field Services, Inc. ("Spectrum" or "Mid-Continent-Velma"), for approximately \$143.0 million, including transaction costs and the payment of taxes due as a result of the transaction. Spectrum's principal assets included 1,900 miles of natural gas pipelines and a natural gas processing facility in Velma, Oklahoma.

The acquisition was accounted for using the purchase method of accounting under SFAS No. 141 "Business Combinations." The following table presents the allocation of the purchase price, including professional fees and other related acquisition costs, to the assets acquired and liabilities assumed, based on their fair values at the date of acquisition (in thousands):

Cash and cash equivalents	\$ 803
Accounts receivable	18,505
Prepaid expenses	649
Property, plant and equipment	140,780
Other long-term assets	1,054
Total assets acquired	161,791
Accounts payable and accrued liabilities	(17,153)
Hedging liabilities	(1,519)
Long-term debt	(164)
Total liabilities assumed	(18,836)
Net assets acquired	\$ 142,955

The Partnership is in the process of evaluating certain estimates made in the purchase price and related allocations; thus, the purchase price and allocation are both subject to adjustment.

The following summarized pro forma consolidated income statement information for the three months ended March 31, 2004, assumes that the acquisition discussed above occurred as of January 1, 2004. The Partnership has prepared these pro forma financial results for comparative purposes only. These pro forma financial results may not be indicative of the results that would have occurred if the Partnership had completed this acquisition as of the periods shown below or the results that will be attained in the future. The amounts presented below are in thousands, except per unit amounts:

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ATLAS PIPELINE PARTNERS, L.P. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
MARCH 31, 2005
(Unaudited)

NOTE 7 -SPECTRUM ACQUISITION - (Continued)

	Three Months Ended March 31, 2004		
	As Reported	Pro Forma Adjustment	Pro Forma
Revenues	\$ 4,246	\$ 27,407	\$ 31,653
Net income	\$ 2,477	\$ 1,410	\$ 3,887
Net income per limited partner unit, basic and diluted	\$.49	\$ (.03)	\$.46
Weighted average number of limited partner units used for net income per unit calculation, basic and diluted	4,355	2,850	7,205

NOTE 8 DERIVATIVE INSTRUMENTS

The Partnership enters into certain financial swap and option instruments that are classified as cash flow hedges in accordance with SFAS No. 133. The Partnership entered into these instruments to hedge the forecasted natural gas, NGLs and condensate sales against the variability in expected future cash flows attributable to changes in market prices. The swap instruments are contractual agreements between counterparties to exchange obligations of money as the underlying natural gas, NGLs and condensate is sold. Under these swap agreements, the Partnership receives a fixed price and pays a floating price based on certain indices for the relevant contract period. The options fix the price for the Partnership within the puts purchased and calls sold.

The Partnership formally documents all relationships between hedging instruments and the items being hedged, including the Partnership's risk management objective and strategy for undertaking the hedging transactions. This includes matching the natural gas futures and options contracts to the forecasted transactions. The Partnership assesses, both at the inception of the hedge and on an ongoing basis, whether the derivatives are effective in offsetting changes in the forecasted cash flow of hedged items. If it is determined that a derivative is not effective as a hedge or it has ceased to be an effective hedge due to the loss of correlation between the hedging instrument and the underlying commodity, the Partnership will discontinue hedge accounting for the derivative and subsequent changes in fair value for the derivative will be recognized immediately into earnings.

Derivatives are recorded on the balance sheet as assets or liabilities at fair value. For derivatives qualifying as hedges, the effective portion of changes in fair value are recognized in partners' capital as other comprehensive income (loss) and reclassified to earnings as such transactions are settled. For non-qualifying derivatives and for the ineffective portion of qualifying derivatives, changes in fair value are recognized in earnings as they occur. At March 31, 2005, the Partnership reflected a net hedging liability on its balance sheet of \$10.8 million. Of the \$9.6 million net loss in other comprehensive income (loss) at March 31, 2005, \$7.4 million of losses will be reclassified to earnings over the next twelve month period as these contracts expire, and \$2.2 million will be reclassified in later periods if the fair values of the instruments remain constant. Actual amounts that will be reclassified will vary as a result of future changes in prices. Ineffective gains or losses are recorded in income while the hedge contract is open and may

increase or decrease until settlement of the contract. The Partnership recognized a loss of \$669,000 related to these hedging instruments in the three months ended March 31, 2005. A loss of \$224,000 resulting from ineffective hedges is included in income for the three months ended March 31, 2005. These losses are included in natural gas and liquids revenue on the Partnership's consolidated statements of income.

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ATLAS PIPELINE PARTNERS, L.P. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
MARCH 31, 2005
(Unaudited)

NOTE 8 DERIVATIVE INSTRUMENTS - (Continued)

A portion of the Partnerships future natural gas sales is periodically hedged through the use of swaps and collar contracts. Realized gains and losses on the derivative instruments that are classified as effective hedges are reflected in the contract month being hedged as an adjustment to revenue.

As of March 31, 2005, the Partnership had the following NGLs, natural gas, and crude oil volumes hedged.

Natural Gas Basis Swaps

Production Period Ended March 31,	Volumes (MMBTU) ⁽¹⁾	Average Fixed Price (per MMBTU)	Fair Value Asset (3) (in thousands)
2006	990,000	\$ -0.500	\$ 156

Natural Gas Liquids Fixed - Price Swaps

Production Period Ended March 31,	Volumes (gallons)	Average Fixed Price (per gallon)	Fair Value Liability(2) (in thousands)
2006	15,966,000	\$ 0.585	\$ (5,453)
2007	4,536,000	0.574	(1,581)
			\$ (7,034)

Natural Gas Fixed - Price Swaps

Production Period Ended March 31,	Volumes (MMBTU) ⁽¹⁾	Average Fixed Price (per MMBTU)	Fair Value Liability(3) (in thousands)
2006	1,110,000	\$ 6.203	\$ (2,077)
2007	300,000	5.905	(426)
			\$ (2,503)

Crude Oil Fixed - Price Swaps

Production Period Ended March 31,	Volumes (barrels)	Average Fixed Price (per barrel)	Fair Value Liability(3) (in thousands)
2006	9,000	\$ 40.958	\$ (136)
2007	21,000	40.818	(295)
			\$ (431)

Crude Oil Options

Production Period Ended March 31,	Option Type	Volumes (barrels)	Average Strike Price (per barrel)	Fair Value Liability (3) (in thousands)
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2006	Puts purchased	45,000	\$	30.00	\$	-
2006	Calls sold	45,000		34.25		(1,007)
					\$	(1,007)
				Total liability	\$	(10,819)

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ATLAS PIPELINE PARTNERS, L.P. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
MARCH 31, 2005
(Unaudited)

-
- (1) MMBTU means Million British Thermal Units.
- (2) Fair value based on the Partnership's internal model which forecasts forward NGL prices as a function of forward NYMEX natural gas and light crude prices.
- (3) Fair value based on forward NYMEX natural gas and light crude prices, as applicable

NOTE 9 - LONG-TERM DEBT

At March 31, 2005, the Partnership had \$10.0 million outstanding on its revolving credit facility at a rate of 4.98% and \$43.7 million outstanding on its term loan at an average rate of 5.65%. In addition, the Partnership had \$1.6 million outstanding under letters of credit.

Annual debt principal payments over the next four fiscal periods ending March 31 are as follows: 2006 – \$2.3 million; 2007 – \$2.3 million; 2008 – \$2.3 million; 2009 – \$12.2 million; 2010 - \$34.8 million.

The credit facility requires the Partnership to maintain a specified ratio of debt to EBITDA, and a specified interest coverage ratio. At March 31, 2005, the Partnership was in compliance with all of the financial covenants. See Note 15 for information on the Partnership's new credit facility which closed in April 2005.

NOTE 10 - LEASES AND COMMITMENTS

The Partnership leases equipment and office space with varying expiration dates through 2007. Rent expense for the quarters ended March 31, 2005 and 2004 was \$423,800 and \$160,300, respectively. Minimum future lease payments for these leases in the twelve month periods ending March 31, 2006, 2007, 2008, 2009 and 2010 are \$647,400, \$7,100, \$6,200, \$3,600, and \$1,100, respectively.

At March 31, 2005, the Partnership had planned capital expenditures of \$8.3 million for the next twelve month period.

NOTE 11 - COMMITMENTS AND CONTINGENCIES

The Partnership is a party to various routine legal proceedings arising out of the ordinary course of its business. Management believes that none of these actions, individually or in the aggregate, will have a material adverse effect on the Partnership's financial condition or results of operations.

On March 9, 2004, the Oklahoma Tax Commission ("OTC") filed a petition against Spectrum alleging that Spectrum underpaid gross production taxes beginning in June 2000. The OTC is seeking a settlement of \$5.0 million plus interest and penalties. The Partnership plans on defending itself vigorously. In addition, under the terms of the Spectrum purchase agreement, \$14.0 million has been placed in escrow to cover the costs of any adverse settlement resulting from the petition and other indemnification obligations of the purchase agreement.

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(Unaudited)