

NGL Energy Partners LP  
Form S-1/A  
April 28, 2011

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As filed with the Securities and Exchange Commission on April 28, 2011

Registration No. 333-172186

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**Amendment No. 3  
to  
FORM S-1  
REGISTRATION STATEMENT  
UNDER THE SECURITIES ACT OF 1933**

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**NGL Energy Partners LP**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**5900**  
(Primary Standard Industrial  
Classification Code Number)  
**6120 South Yale Avenue**  
**Suite 805**  
**Tulsa, Oklahoma 74136**  
**(918) 481-1119**

**27-3427920**  
(IRS Employer  
Identification Number)

(Address, including zip code, and telephone number, including  
area code, of registrant's principal executive offices)

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**H. Michael Krimbill**  
**6120 South Yale Avenue**  
**Suite 805**  
**Tulsa, Oklahoma 74136**  
**(918) 481-1119**

(Name, address, including zip code, and telephone number, including area code, of agent for service)

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# Edgar Filing: NGL Energy Partners LP - Form S-1/A

(713) 220-5881

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**Approximate date of commencement of proposed sale to the public:**

As soon as practicable after this registration statement becomes effective.

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If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. ☐

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. (check one)

Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☒

Smaller reporting company ☐

(Do not check if a  
smaller reporting company)

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The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until the registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

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**The information in this preliminary prospectus is not complete and may be changed. These securities may not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell nor does it seek an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.**

**PROSPECTUS**

**SUBJECT TO COMPLETION, DATED APRIL 28, 2011**

**NGL Energy Partners LP**  
**3,500,000 Common Units**  
**Representing Limited Partner Interests**

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This is the initial public offering of common units of NGL Energy Partners LP. We are offering 3,500,000 common units. We currently estimate that the initial public offering price of our common units will be between \$19.00 and \$21.00 per common unit.

Prior to this offering, there has been no public market for our common units. Our common units have been cleared to apply to list on the New York Stock Exchange, subject to official notice of issuance, under the symbol "NGL."

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**Investing in our common units involves risks. See "Risk Factors" beginning on page 14.**

These risks include the following:

We may not have sufficient cash to enable us to pay the minimum quarterly distribution to our unitholders following the establishment of cash reserves by our general partner and the payment of costs and expenses, including reimbursement of expenses to our general partner.

Our retail propane operations are concentrated in the Midwest and Southeast, and localized warmer weather and/or economic downturns may adversely affect demand for propane in those regions, thereby affecting our financial condition and results of operations.

If we do not successfully identify acquisition candidates, complete accretive acquisitions on economically acceptable terms or adequately integrate the acquired operations into our existing operations, our future financial performance may be adversely affected and our growth may be limited.

Our general partner and its affiliates have conflicts of interest with us and limited fiduciary duties to our unitholders, and they may favor their own interests to the detriment of us and our unitholders.

Even if our unitholders are dissatisfied, they have limited voting rights and are not entitled to elect our general partner or its directors.

Our unitholders will be required to pay taxes on their share of our income even if they do not receive any cash distributions from us.

	<b>Per Common Unit</b>	<b>Total</b>
Initial price to public	\$	\$
Underwriting discounts and commissions(1)	\$	\$
Proceeds, before expenses, to NGL Energy Partners LP	\$	\$

(1) Excludes a structuring fee equal to 0.5% of the gross proceeds from this offering payable to Wells Fargo Securities, LLC.

We have granted the underwriters a 30-day option to purchase up to an additional 525,000 common units from us at the initial public offering price less the underwriting discount if the underwriters sell more than 3,500,000 common units in this offering. The net proceeds from the issuance and sale of any of the last 175,000 common units of the underwriters' option will be used to redeem common units from the NGL Energy LP Investor Group. Members of the NGL Energy LP Investor Group will be deemed to be underwriters with respect to any common units so redeemed.

**None of the Securities and Exchange Commission, any state securities commission, or any other regulatory body has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

The underwriters expect to deliver the common units on or about , 2011.

**Wells Fargo Securities**

*Joint Book-Running Managers*

**RBC Capital Markets**

**SunTrust Robinson Humphrey**

*Lead Managers*

**BMO Capital Markets**

**Baird**

**Janney Montgomery Scott**  
Prospectus dated , 2011.

**BOSC, Inc.**

*Co-Managers*

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**You should rely only on the information contained in this prospectus or in any free writing prospectus we may authorize to be delivered to you. Neither we nor the underwriters have authorized anyone to provide you with additional or different information. We and the underwriters are offering to sell, and seeking offers to buy, our common units only in jurisdictions where offers and sales are permitted. The information in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or any sale of our common units.**

Through and including \_\_\_\_\_, 2011 (25 days after the commencement of this offering), all dealers that effect transactions in our common units, whether or not participating in this offering, may be required to deliver a prospectus. This delivery is in addition to a dealer's obligation to deliver a prospectus when acting as an underwriter and with respect to their unsold allotments or subscriptions.

This prospectus contains forward-looking statements that are subject to a number of risks and uncertainties, many of which are beyond our control. See "Risk Factors" beginning on page 14 and "Forward-Looking Statements" beginning on page 194.

### **Industry and Market Data**

The market data and certain other statistical information used throughout this prospectus are based on independent industry publications, government publications or other published independent sources. Some data are also based on our good faith estimates. Although we believe these third-party sources are reliable and that the information is accurate and complete, we have not independently verified the information.



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**SUMMARY**

*This summary highlights information contained elsewhere in this prospectus. Because this summary provides only a brief overview of the key aspects of the offering, it does not contain all of the information that you should consider before investing in our common units. You should read the entire prospectus carefully, including "Risk Factors" beginning on page 14 and the consolidated historical and pro forma financial statements and the related notes, before making an investment decision. The information presented in this prospectus assumes (i) an initial public offering price of \$20.00 per common unit and (ii) unless otherwise indicated, that the underwriters do not exercise their option to purchase additional common units from us.*

*References in this prospectus to (i) "NGL Energy Partners LP," "we," "our," "us" or similar terms refer to NGL Energy Partners LP and its operating subsidiaries after giving effect to the formation transactions described in "Formation Transactions and Partnership Structure," (ii) "NGL Energy Holdings LLC" or "general partner" refers to NGL Energy Holdings LLC, our general partner, (iii) "Silverthorne Operating LLC" or "operating company" refers to Silverthorne Operating LLC, the direct operating subsidiary of NGL Energy Partners LP, (iv) "NGL Supply, Inc." or "NGL Supply" refers to NGL Supply, Inc., (v) "Hicksgas" refers to the combined assets and operations of Hicksgas Gifford, Inc., which we refer to as Gifford, and Hicksgas, LLC, which we refer to as Hicks LLC, (vi) the "NGL Energy GP Investor Group" refers to, collectively, the individuals and entities that own all of the outstanding membership interests in our general partner, as listed on page 113, (vii) the "NGL Energy LP Investor Group" refers to, collectively, the individuals and entities that own all of our outstanding common units, as listed on page 114, and (viii) the "NGL Energy Investor Group" refers to, collectively, the NGL Energy GP Investor Group and the NGL Energy LP Investor Group.*

**Our Company**

**Overview**

We are a Delaware limited partnership formed in September 2010 to own and operate a vertically-integrated propane business with three operating segments: retail propane; wholesale supply and marketing; and midstream.

**Our Assets and Areas of Operation**

*Retail Propane.* Our retail propane business consists of the retail marketing, sale and distribution of propane, including the sale and lease of propane tanks, equipment and supplies, to more than 54,000 residential, agricultural, commercial and industrial customers. Based on industry statistics from *LP Gas* magazine, we believe that we are the 12th largest domestic retail propane distribution company by volume.

We market retail propane primarily in Georgia, Illinois, Indiana and Kansas through our customer service locations. We own or lease 44 customer service locations and 37 satellite distribution locations, with aggregate above-ground propane storage capacity of approximately four million gallons. We also own a fleet of bulk delivery trucks and service vehicles.

*Wholesale Supply and Marketing.* Our wholesale supply and marketing business provides propane procurement, storage, transportation and supply services to customers through assets owned by us and by third parties. Our wholesale supply and marketing business also obtains the majority of the propane supply for our retail propane business.

We procure propane from refiners, gas processing plants, producers and other resellers for delivery to leased storage, common carrier pipelines, rail car terminals and direct to certain customers. We lease approximately 68 million gallons of propane storage space in various strategic locations to accommodate the supply requirements and contractual needs of our retail and wholesale customers.

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During the typical heating season from September 15 through March 15, we have the right to utilize ConocoPhillips' capacity as a shipper on the Blue Line pipeline, which runs from Borger, Texas to our propane terminals in East St. Louis, Illinois and Jefferson City, Missouri. Since ConocoPhillips is currently the only shipper on the Blue Line pipeline, we are effectively able to use 100% of the capacity on the Blue Line pipeline during this period each year. We do not believe any other shippers will meet the requirements to utilize the Blue Line pipeline under the applicable FERC tariff during the term of our agreement with ConocoPhillips.

*Midstream.* Our midstream business, which currently consists of our propane terminaling business, takes delivery of propane from a pipeline or truck at our propane terminals and transfers the propane to third party trucks for delivery to propane retailers, wholesalers or other customers. Our midstream assets consist of our three state-of-the-art propane terminals in East St. Louis, Illinois; Jefferson City, Missouri; and St. Catharines, Ontario. We are the exclusive service provider at each of our terminals, which have a combined annual throughput in excess of 170 million gallons of propane.

**Our Business Strategies**

Our principal business objective is to increase the quarterly distributions that we pay to our unitholders over time while ensuring the ongoing stability of our business. We expect to achieve this objective by executing the following strategies:

grow through strategic acquisitions;

pursue organic growth;

focus on consistent annual cash flows; and

maintain a disciplined capital structure.

**Our Competitive Strengths**

We believe that we are well-positioned to successfully execute our business strategies and achieve our principal business objective because of the following competitive strengths:

our experienced management team with extensive acquisition and integration experience;

cash flows from our vertically integrated and diversified operations;

our high percentage of retail sales to residential customers;

our wholesale supply and marketing business; and

our propane terminals and capacity on the Blue Line pipeline.

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**Formation Transactions and Partnership Structure**

We own and operate the propane and other natural gas liquids businesses that historically were owned and operated by NGL Supply and Hicksgas. In October 2010, the following transactions, which we refer to as the formation transactions, occurred:

Hicks Oils & Hicksgas, Incorporated, or HOH, formed a wholly owned subsidiary, Hicks LLC, and contributed to it all of HOH's propane and propane-related assets. The shareholders of Gifford contributed all of their shares of stock in Gifford to a newly formed holding company, Gifford Holdings, Inc.

Each of the NGL Supply Parties, the Coady Parties and the IEP Parties, as those terms are defined by the listings in the table on page 113, made capital contributions to our general partner in exchange for membership interests in our general partner in the aggregate amounts of 36.47%, 31.00% and 32.53%, respectively.

Our general partner made a cash capital contribution of approximately \$58,800 to us in exchange for the continuation of its 0.1% general partner interest in us and incentive distribution rights and the IEP Parties made a cash capital contribution to us in the aggregate amount of approximately \$11.0 million in exchange for an aggregate 18.67% limited partner interest in us.

NGL Supply and Gifford each converted into a limited liability company and the members of NGL Supply, Hicks LLC and Gifford contributed 100% of their respective membership interests in those entities to us as capital contributions in exchange for (i) in the case of NGL Supply, a 43.27% limited partner interest in us, a cash distribution of approximately \$40.0 million and our agreement to pay or cause to be paid approximately \$27.9 million of existing indebtedness of NGL Supply, (ii) in the case of Hicks LLC, a 37.96% limited partner interest in us, a cash distribution of approximately \$1.6 million and our agreement to pay or cause to be paid approximately \$6.5 million of existing indebtedness of Hicks LLC and (iii) in the case of Gifford, a cash payment of approximately \$15.5 million.

We made a capital contribution of 100% of the membership interests of each of NGL Supply, Hicks LLC and Gifford to our wholly owned operating subsidiary, Silverthorne Operating LLC.

For accounting purposes, NGL Supply is considered to be the acquirer of Hickgas.

On October 14, 2010, we entered into a \$150 million revolving credit facility, consisting of a \$50 million working capital facility and a \$100 million acquisition facility, with a group of lenders. Through April 2011, we have increased the committed amount under the acquisition facility to \$150 million, which increased our total revolving credit facility capacity to \$200 million.

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**Ownership and Organizational Structure**

Immediately prior to the completion of this offering, each common unit held by the members of the NGL Energy LP Investor Group will split into 3.7219 common units and 5,919,346 common units held by the NGL Energy LP Investor Group will be converted on a pro rata basis into 5,919,346 subordinated units. The following table sets forth our organization and ownership based on the total number of our common units outstanding after the completion of this offering. In addition, our general partner will contribute approximately \$70,000 to us to maintain its 0.1% general partner interest.

		<b>Ownership Interest</b>
Common units	public	24.2%
Common units	NGL	
Energy LP Investor Group		34.7%
Subordinated units	NGL	
Energy LP Investor Group		41.0%
General partner interest		0.1%
<b>Total</b>		<b>100.00%</b>

As is common with publicly traded partnerships, in order to maintain operational flexibility we will conduct our operations through subsidiaries. Our one direct subsidiary, Silverthorne Operating LLC, is a Delaware limited liability company that will conduct business itself and through its subsidiaries. The following diagram depicts our organizational and ownership structure after the completion of this offering.

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**Our Management**

Our general partner has sole responsibility for conducting our business and for managing our operations and will be owned and controlled by the NGL Energy GP Investor Group. Our general partner will make decisions on our behalf through its board of directors and executive officers, which executive officers are also officers of our operating company. We will reimburse our general partner and its affiliates for all expenses they incur or payments they make on our behalf. Our partnership agreement provides that our general partner will determine in good faith the expenses that are allocable to us.

Upon the completion of this offering, the board of directors of our general partner will have four members. Our general partner intends to increase the size of the board to six members within 12 months following the completion of this offering. Neither our general partner nor its board of directors will be elected by our unitholders. The NGL Energy GP Investor Group will have the right to appoint our general partner's entire board of directors, including the independent directors.

**Summary of Conflicts of Interest and Fiduciary Duties**

Our general partner has a legal duty to manage us in a manner beneficial to our partners. This legal duty originates in statutes and judicial decisions and is commonly referred to as a "fiduciary duty." At the same time, the officers and directors of our general partner also have fiduciary duties to manage our general partner in a manner beneficial to its owners. As a result, conflicts of interest may arise in the future between us and the holders of our common units, on the one hand, and our general partner and its affiliates on the other hand. For example, our general partner will be entitled to make determinations that affect the amount of cash distributions we make to the holders of common and subordinated units, which in turn has an effect on whether our general partner receives incentive distributions, as described in "The Offering."

Our partnership agreement limits the liability of and reduces the fiduciary duties owed by our general partner to holders of our common units. Our partnership agreement also restricts the remedies available to holders of our common units for actions that might otherwise constitute a breach of our general partner's fiduciary duties. By purchasing a common unit, the purchaser agrees to be bound by the terms of our partnership agreement, and pursuant to the terms of our partnership agreement each holder of common units consents to various actions and potential conflicts of interest contemplated in the partnership agreement that might otherwise be considered a breach of fiduciary or other duties under applicable state law.

For a more detailed description of the conflicts of interest and the fiduciary duties of our general partner, please read "Conflicts of Interest and Fiduciary Duties."

**Principal Executive Offices and Internet Address**

Our principal executive offices are located at 6120 South Yale Avenue, Suite 805, Tulsa, Oklahoma 74136. Our telephone number is (918) 481-1119. Our website will be located at [www.nglenergypartners.com](http://www.nglenergypartners.com) following the completion of this offering. We expect to make available our periodic reports and other information filed with or furnished to the SEC free of charge through our website, as soon as reasonably practicable after those reports and other information are electronically filed with or furnished to the SEC. Information on our website or any other website is not incorporated by reference into this prospectus and does not constitute a part of this prospectus.

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**The Offering**

<b>Common units offered to the public</b>	<p>3,500,000 common units.</p> <p>4,025,000 common units, if the underwriters exercise their option to purchase additional common units from us in full.</p>
<b>Units outstanding after this offering</b>	<p>8,514,222 common units and 5,919,346 subordinated units, each representing a 58.9% and 41.0% limited partner interest in us, respectively (8,864,222 common units and 5,919,346 subordinated units, each representing a 59.9% and 40.0% limited partner interest in us, respectively, if the underwriters exercise their option to purchase additional common units from us in full). Our general partner will own a 0.1% general partner interest in us.</p>
<b>Use of proceeds</b>	<p>We expect to receive net proceeds from the issuance and sale of common units offered by this prospectus of approximately \$62.0 million, after deducting underwriting discounts and commissions, a structuring fee and offering expenses (or approximately \$71.8 million if the underwriters exercise their option to purchase additional common units from us in full). We intend to use the net proceeds, including the net proceeds from the issuance and sale of any of the first 350,000 common units pursuant to an exercise of the underwriters' option to purchase additional common units from us, to repay amounts outstanding under our revolving credit facility (approximately \$65.0 million) and, to the extent that net proceeds remain after all amounts outstanding under our revolving credit facility are repaid, for working capital and general partnership purposes, which may include the acquisition of propane and midstream related businesses.</p> <p>We intend to use the net proceeds from any exercise by the underwriters of their option to purchase additional common units from us as follows: (i) the net proceeds from the issuance and sale of any of the first 350,000 common units (approximately \$6.5 million) will be used with the other net proceeds of this offering as described above after deducting underwriting discounts and commissions and a structuring fee and (ii) the net proceeds from the issuance and sale of any of the remaining 175,000 common units (approximately \$3.3 million) used to redeem from the NGL Energy LP Investor Group on a pro rata basis a number of common units equal to the number of common units issued upon exercise of that portion of the option at a price per common unit equal to the proceeds per common unit before expenses but after deducting underwriting discounts and commissions and a structuring fee. We will cancel the common units redeemed from the NGL Energy LP Investor Group so that they will no longer be outstanding. Members of the NGL Energy LP Investor Group will be deemed to be underwriters with respect to any common units so redeemed.</p>

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Affiliates of certain of the underwriters are lenders under our revolving credit facility and will receive their proportionate share of the repayment of borrowings outstanding under our revolving credit facility by us in connection with this offering. Please read "Underwriting."

**Cash distributions**

We intend to pay a minimum quarterly distribution of \$0.3375 per unit (\$1.35 per unit on an annualized basis) to the extent we have sufficient cash from operations after establishment of cash reserves at the discretion of our general partner and payment of fees and expenses, including payments to our general partner and its affiliates. We refer to this cash as "available cash," and it is defined in our partnership agreement included in this prospectus as Appendix A.

Our ability to pay the minimum quarterly distribution is subject to various restrictions and other factors described in more detail in "Our Cash Distribution Policy and Restrictions on Distributions." For the first quarter that our common units are publicly traded, we will pay our unitholders a prorated distribution covering the period from the date of the completion of this offering through June 30, 2011, based on the actual number of days in that period.

Our partnership agreement requires that we distribute all of our available cash each quarter in the following manner:

first, 99.9% to the holders of common units and 0.1% to our general partner, until each common unit has received the minimum quarterly distribution of \$0.3375, plus any arrearages from prior quarters;

second, 99.9% to the holders of subordinated units and 0.1% to our general partner, until each subordinated unit has received the minimum quarterly distribution of \$0.3375; and

third, 99.9% to all unitholders, pro rata, and 0.1% to our general partner, until each unit has received a distribution of \$0.388125.

If cash distributions to our unitholders exceed \$0.388125 per unit in any quarter, our general partner will receive, in addition to distributions on its 0.1% general partner interest, increasing percentages, up to 48.0%, of the cash we distribute in excess of that amount. We refer to these distributions as "incentive distributions." Please read "Provisions of Our Partnership Agreement Relating to Cash Distributions General Partner Interest and Incentive Distribution Rights."

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Prior to making distributions, we will reimburse our general partner for general and administrative expenses it incurs for services that it provides to us, including compensation, travel and entertainment expenses for the non-employee directors serving on the board of directors of our general partner and the cost of director and officer liability insurance. We estimate that we will reimburse our general partner for approximately \$250,000 in expenses annually.

The amount of pro forma available cash generated during the fiscal year ended March 31, 2010 would have been sufficient to allow us to pay a cash distribution of approximately \$0.323 per unit per quarter (\$1.29 per unit on an annualized basis), or approximately 95.7% of the minimum quarterly distribution, on all of our common units and no cash distribution on any of our subordinated units for such period. The amount of pro forma available cash generated during the twelve months ended December 31, 2010 would have been sufficient to allow us to pay a cash distribution of approximately \$0.266 per unit per quarter (\$1.06 per unit on an annualized basis), or approximately 78.9% of the minimum quarterly distribution, on all of our common units and no cash distribution on any of our subordinated units for such period. Please read "Our Cash Distribution Policy and Restrictions on Distributions."

We believe that, based on the Partnership Statement of Forecasted Estimated Adjusted EBITDA included in "Our Cash Distribution Policy and Restrictions on Distributions," we will have sufficient cash available for distribution to pay the minimum quarterly distribution of \$0.3375 per unit on all of our common and subordinated units and the corresponding distributions on our general partner's 0.1% general partner interest for the twelve months ending March 31, 2012. Please read "Risk Factors" and "Our Cash Distribution Policy and Restrictions on Distributions."

**Subordinated units**

The NGL Energy LP Investor Group will initially own all of our subordinated units. The principal difference between our common and subordinated units is that in any quarter during the subordination period, holders of the subordinated units are not entitled to receive any distribution until the common units have received the minimum quarterly distribution of available cash plus any arrearages in the payment of the minimum quarterly distribution from prior quarters. Subordinated units will not accrue arrearages. The conversion of 5,919,346 common units held by the NGL Energy LP Investor Group into 5,919,346 subordinated units immediately prior to the completion of this offering provides additional distribution support to our common units by subordinating a portion of the units held by the NGL Energy LP Investor Group to the distributions on the common units.



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**Conversion of subordinated units**

The subordination period will end on the first business day after we have earned and paid at least (i) \$1.35 (the minimum quarterly distribution on an annualized basis) on each outstanding unit and the corresponding distributions on our general partner's 0.1% general partner interest for each of three consecutive, non-overlapping four-quarter periods ending on or after June 30, 2014 or (ii) \$2.025 (150.0% of the minimum quarterly distribution on an annualized basis) on each outstanding unit and the corresponding distribution on our general partner's 0.1% general partner interest and the related distribution on the incentive distribution rights for the four-quarter period immediately preceding that date.

When the subordination period ends, all subordinated units will convert into common units on a one-for-one basis and all common units thereafter will no longer be entitled to arrearages. For a description of the subordination period, please read "Provisions of Our Partnership Agreement Relating to Cash Distributions Subordination Period."

**General partner's right to reset the target distribution levels**

Our general partner has the right, at any time when there are no subordinated units outstanding and it has received incentive distributions at the highest level to which it is entitled (48.0%) for each of the prior four consecutive fiscal quarters, to reset the initial target distribution levels at higher levels based on our cash distributions at the time of the exercise of the reset election. Following a reset election by our general partner, the minimum quarterly distribution will be adjusted to equal the reset minimum quarterly distribution, and the target distribution levels will be reset to correspondingly higher levels based on the same percentage increases above the reset minimum quarterly distribution.

If our general partner elects to reset the target distribution levels, it will be entitled to receive a number of common units equal to the number of common units that would have entitled the holder to an average aggregate quarterly cash distribution in the prior two quarters equal to the average of the distributions to our general partner on the incentive distribution rights in the prior two quarters. Our general partner's general partner interest in us will be maintained at the percentage immediately prior to the reset election. Please read "Provisions of our Partnership Agreement Relating to Cash Distributions General Partner's Right to Reset Incentive Distribution Levels."

**Issuance of additional units**

We can issue an unlimited number of units without the consent of our unitholders. Please read "Units Eligible for Future Sale" and "The Partnership Agreement Issuance of Additional Partnership Interests."

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**Limited voting rights**

Our general partner will manage and operate us. Unlike the holders of common stock in a corporation, our unitholders will have only limited voting rights on matters affecting our business. Our unitholders will have no right to elect our general partner or its directors on an annual or other continuing basis. Our general partner may not be removed except by a vote of the holders of at least  $66\frac{2}{3}\%$  of the outstanding units voting together as a single class, including any units owned by our general partner and its affiliates. After the completion of this offering, the NGL Energy LP Investor Group will own an aggregate of 75.8% of our common and subordinated units (72.8% if the underwriters exercise their option to purchase additional common units from us in full). This will give the NGL Energy LP Investor Group the ability to prevent the involuntary removal of our general partner. Please read "The Partnership Agreement Voting Rights."

**Limited call right**

If at any time our general partner and its affiliates own more than 80% of the outstanding common units, our general partner has the right, but not the obligation, to purchase all of the remaining common units at a price equal to the greater of (i) the highest per-unit price paid by our general partner or any of its affiliates for common units during the 90 days preceding the date notice of exercise of the call right is first mailed and (ii) the average of the daily closing price of our common units over the 20 consecutive trading days preceding the date that is three days before such notice is first mailed. For additional information about this right, please read "The Partnership Agreement Limited Call Right."

**Estimated ratio of taxable income to distributions**

We estimate that if you own the common units you purchase in this offering through the record date for distributions for the period ending December 31, 2013, you will be allocated, on a cumulative basis, an amount of federal taxable income for that period that will be 10% or less of the cash distributed to you with respect to that period. For example, if you receive an annual distribution of \$1.00 per unit, we estimate that your average allocable federal taxable income per year will be no more than \$0.10 per unit. Please read "Material Tax Consequences Tax Consequences of Unit Ownership Ratio of Taxable Income to Distributions."

**Material tax consequences**

For a discussion of the material federal income tax consequences that may be relevant to prospective holders of our common units who are individual citizens or residents of the United States, please read "Material Tax Consequences."

**Exchange listing**

Our common units have been cleared to apply to list on the New York Stock Exchange, subject to official notice of issuance, under the symbol "NGL."

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**Summary Historical and Unaudited Pro Forma Financial and Operating Data**

We were formed on September 8, 2010, and we do not have our own historical financial statements for periods prior to our formation. The following table shows summary historical financial and operating data for NGL Supply and pro forma financial and operating data for NGL Energy Partners LP for the periods and as of the dates indicated. The following table should be read in conjunction with "Selected Historical and Unaudited Pro Forma Financial and Operating Data" and the financial statements and related notes included elsewhere in this prospectus.

The summary historical financial data as of March 31, 2010 and 2009 and for the fiscal years ended March 31, 2010, 2009 and 2008 are derived from the audited historical consolidated financial statements of NGL Supply included elsewhere in this prospectus. The summary historical financial data as of September 30, 2010 and December 31, 2009 and for the six months ended September 30, 2010 and 2009 and the three months ended December 31, 2009 are derived from the unaudited historical consolidated financial statements of NGL Supply included elsewhere in this prospectus and NGL Supply's financial records. The selected historical financial data as of December 31, 2010 and for the three months ended December 31, 2010 are derived from our unaudited historical consolidated financial statements included elsewhere in this prospectus. The results of operations for the interim periods are not necessarily indicative of operating results for the entire year or any future period.

Our summary unaudited pro forma financial data as of December 31, 2010 and for the fiscal year ended March 31, 2010 and the nine months ended December 31, 2010 are derived from the unaudited pro forma financial statements of NGL Energy Partners LP included elsewhere in this prospectus. In the case of the unaudited pro forma balance sheet, the pro forma adjustments have been prepared as if the following transactions had taken place on December 31, 2010:

the split of each common unit held by the members of the NGL Energy LP Investor Group into 3.7219 common units;

the conversion of 5,919,346 common units held by the members of the NGL Energy LP Investor Group on a pro rata basis into 5,919,346 subordinated units;

a contribution of approximately \$70,000 by our general partner to maintain its 0.1% general partner interest; and

the application of the net proceeds from this offering as described in "Use of Proceeds."

In the case of the unaudited pro forma statement of operations, the pro forma adjustments have been prepared as if the following transactions had taken place as of April 1, 2009:

the formation transactions;

the entry into our revolving credit facility;

the split of each common unit held by the members of the NGL Energy LP Investor Group into 3.7219 common units;

the conversion of 5,919,346 common units held by the members of the NGL Energy LP Investor Group on a pro rata basis into 5,919,346 subordinated units;

a contribution of approximately \$70,000 by our general partner to maintain its 0.1% general partner interest; and

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the application of the net proceeds from this offering as described in "Use of Proceeds."

The pro forma financial and operating data does not give effect to approximately \$1.0 million of estimated incremental annual administration expenses we expect to incur as a result of being a publicly traded partnership.

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The following table includes historical EBITDA and Adjusted EBITDA for NGL Supply, our historical EBITDA and Adjusted EBITDA and our pro forma EBITDA and Adjusted EBITDA, which have not been prepared in accordance with generally accepted accounting principles, or GAAP. These measures are presented because they are helpful to management, industry analysts, investors, lenders and rating agencies and may be used to assess the financial performance and operating results of our fundamental business activities. For definitions of EBITDA and Adjusted EBITDA and a reconciliation of EBITDA and Adjusted EBITDA to their most directly comparable financial measure calculated and presented in accordance with GAAP, please read " Non-GAAP Financial Measures" below.

	NGL Supply			NGL Energy Partners LP		NGL Supply		NGL Energy Partners LP Unaudited Pro Forma	
	Years Ended March 31,			Three Months Ended December 31,	Three Months Ended December 31,	Six Months Ended September 30,	Six Months Ended September 30,	Year Ended March 31,	Nine Months Ended December 31,
	2010	2009	2008	2010	2009	2010	2009	2010	2010
(in thousands, except per unit or share data)									
<b>Income Statement Data(1)</b>									
Total operating revenues	\$ 735,506	\$ 734,991	\$ 834,257	\$ 311,137	\$ 237,497	\$ 316,943	\$ 198,327	\$ 809,633	\$ 648,058
Gross margin	27,291	28,573	16,236	19,664	11,393	6,035	6,256	57,484	34,479
Operating income (loss)	6,661	9,431	3,162	7,221	6,853	(3,795)	(1,528)	9,766	195
Interest expense	668	1,621	1,061	1,314	190	372	220	2,422	1,817
Net income (loss) attributable to parent entity	3,636	4,949	1,613	6,056	4,214	(2,515)	(1,049)	7,854	(1,142)
Basic earnings per common share	178.75	242.82	69.17		213.28	(128.45)	(55.25)		
Diluted earnings per common share	176.61	239.92	68.35		210.74	(128.45)	(55.25)		
Basic earnings per common unit				2.06				0.54	(0.08)
Diluted earnings per common unit				2.06				0.54	(0.08)
<b>Other Financial Data</b>									
EBITDA	\$ 10,534	\$ 13,115	\$ 6,120	\$ 9,266	\$ 7,827	\$ (1,771)	\$ 408	\$ 17,830	\$ 6,260
Adjusted EBITDA	\$ 9,982	\$ 13,079	\$ 6,351	\$ 9,297	\$ 7,866	\$ (1,695)	\$ 690	\$ 17,350	\$ 6,311
<b>Cash Flows Data(1)</b>									
Cash flows from operating activity	\$ 7,480	\$ 22,459	\$ (10,931)	\$ 143	\$ 9,279	\$ (30,886)	\$ (20,101)		
Cash distributions per common share						357.09			
Cash distributions per common unit								\$	\$
Capital Expenditures:									
Maintenance(2)	582	577	496	671	456	280		3,804	3,216
Expansion(3)	3,113	3,532	6,237	17,128	(242)	121	2,550	3,113	121
Total	3,695	4,109	6,733	17,799	214	401	2,550	6,917	3,337
<b>Balance Sheet Data Period End</b>									
Total assets	\$ 111,580	\$ 103,434	\$ 111,520	\$ 233,403	\$ 142,568	\$ 148,596	\$ 136,488		\$ 232,403
Total long-term obligations	8,851	9,245	7,830	69,061	8,928	18,940	15,927		5,991
Redeemable preferred stock	3,000	3,000	3,000		3,000		3,000		
Equity	46,403	42,691	38,133	40,997	45,956	36,811	44,760		103,067
<b>Volume Information (in thousand gallons)</b>									

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Retail propane sales volumes	15,514	14,033	10,239	14,676	4,830	3,747	3,795	54,024	25,637
Wholesale propane(4) volumes	623,510	510,255	506,909	191,833	187,594	226,330	211,368	623,510	418,163
Wholesale other NGLs volumes	53,878	58,523	88,808	26,421	17,711	32,100	25,583	53,878	58,521
Midstream terminal throughput volumes	170,621	136,818	130,348	50,451	62,658	43,704	45,869	170,621	94,155

- (1) The acquisition of retail propane businesses by NGL Supply in fiscal years 2008 through 2010 and by NGL Energy Partners LP in October 2010 affects the comparability of this information.
- (2) Cash expenditures to maintain, including over the long-term, operating capacity and/or income.
- (3) Cash expenditures for acquisitions or capital improvements made to increase, over the long-term, operating capacity or operating income.
- (4) Includes intercompany volumes sold to our retail propane segment.

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### Non-GAAP Financial Measures

We define EBITDA as net income (loss) attributable to parent entity plus income taxes, interest expense and depreciation and amortization expense. Management believes it is appropriate to exclude certain items from EBITDA because management believes these items affect the comparability of operating results. We define Adjusted EBITDA as EBITDA excluding the unrealized gain or loss on derivative contracts, the gain or loss on the disposal of assets and share-based compensation expenses. EBITDA and Adjusted EBITDA are non-GAAP financial measures that management and external users of our consolidated financial statements, such as industry analysts, investors, lenders and rating agencies, may use to assess:

our operating performance as compared to other publicly traded partnerships in the propane industry, without regard to capital structure, historical cost basis or financing methods;

our ability to incur and service debt and fund capital expenditures;

the ability of our assets to generate sufficient cash flow to make distributions to our unitholders; and

the viability of acquisitions and other capital expenditure projects and the returns on investment of various investment opportunities.

We believe that the presentation of EBITDA and Adjusted EBITDA in this prospectus provides information useful to investors in assessing our financial condition and results of operations. The GAAP measure most directly comparable to EBITDA and Adjusted EBITDA is net income. Our non-GAAP financial measures of EBITDA and Adjusted EBITDA should not be considered as an alternative to GAAP net income. EBITDA and Adjusted EBITDA have important limitations as analytical tools because they exclude some but not all items that affect net income. You should not consider EBITDA and Adjusted EBITDA in isolation or as a substitute for analysis of our results as reported under GAAP. Because EBITDA and Adjusted EBITDA may be defined differently by other companies in our industry, our definitions of EBITDA and Adjusted EBITDA may not be comparable to similarly titled measures of other companies, thereby diminishing their utility.

The following table presents a reconciliation of the non-GAAP financial measures of EBITDA and Adjusted EBITDA to the GAAP financial measure of net income on a historical and pro forma basis:

	NGL Supply			NGL Energy Partners LP		NGL Supply		NGL Energy Partners LP	
	Year Ended March 31,			Three Months Ended December 31,	Three Months Ended December 31,	Six Months Ended September 30,	Six Months Ended September 30,	Year Ended March 31,	Unaudited Pro Forma Nine Months Ended December 31,
	2010	2009	2008	2010	2009	2010	2009	2010	2010
Net income (loss) attributable to parent entity	\$ 3,636	\$ 4,949	\$ 1,613	\$ 6,056	\$ 4,214	\$ (2,515)	\$ (1,049)	\$ 7,854	\$ (1,142)
Provision (benefit) for income taxes	2,478	3,255	948		2,479	(1,417)	(605)		
Interest expense	668	1,621	1,061	1,314	190	372	220	2,422	1,817
Depreciation and amortization	3,752	3,290	2,498	1,896	944	1,789	1,842	7,554	5,585
<b>EBITDA</b>	<b>\$ 10,534</b>	<b>\$ 13,115</b>	<b>\$ 6,120</b>	<b>\$ 9,266</b>	<b>\$ 7,827</b>	<b>\$ (1,771)</b>	<b>\$ 408</b>	<b>\$ 17,830</b>	<b>\$ 6,260</b>
Unrealized (gain) loss on derivative contracts	(563)	17	36	31	39	200	282	(491)	175
Loss (gain) on sale of assets	11	(150)	1			(124)		11	(124)
Share-based compensation expense		97	194						

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Adjusted EBITDA	\$	9,982	\$	13,079	\$	6,351	\$	9,297	\$	7,866	\$	(1,695)	\$	690	\$	17,350	\$	6,311
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**RISK FACTORS**

*Limited partner units are inherently different from capital stock of a corporation, although many of the business risks to which we are subject are similar to those that would be faced by a corporation engaged in similar businesses. We urge you to consider carefully the following risk factors together with all of the other information included in this prospectus in evaluating an investment in our common units.*

*If any of the following risks were to occur, our business, financial condition or results of operations could be materially adversely affected. In that case, we might be unable to pay the minimum quarterly distribution on our common units, the trading price of our common units could decline and you could lose all or part of your investment in us.*

**Risks Related to Our Business**

***We may not have sufficient cash to enable us to pay the minimum quarterly distribution to our unitholders following the establishment of cash reserves by our general partner and the payment of costs and expenses, including reimbursement of expenses to our general partner.***

We may not have sufficient cash each quarter to enable us to pay the minimum quarterly distribution. The amount of cash we can distribute on our common and subordinated units principally depends on the amount of cash we generate from our operations, which will fluctuate from quarter to quarter based on, among other things:

weather conditions in our operating areas;

the cost of propane that we buy for resale and whether we are able to pass along cost increases to our customers;

the volume of propane throughput in our terminals;

disruptions in the availability of propane supply;

the level of competition from other propane companies and other energy providers; and

prevailing economic conditions.

In addition, the actual amount of cash we will have available for distribution also depends on other factors, some of which are beyond our control, including:

the level of capital expenditures we make;

the cost of acquisitions, if any;

restrictions contained in our revolving credit facility and other debt service requirements;

fluctuations in working capital needs;

our ability to borrow funds and access capital markets;

the amount, if any, of cash reserves established by our general partner; and

other business risks discussed in this prospectus that potentially affect our cash levels.

Because of all these factors, we may not have sufficient available cash each quarter to be able to pay the minimum quarterly distribution.

For a description of additional restrictions and factors that may affect our ability to make cash distributions, please read "Our Cash Distribution Policy and Restrictions On Distributions."

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***The amount of cash we have available for distribution to our unitholders depends primarily on our cash flow rather than on our profitability, which may prevent us from making distributions, even during periods in which we realize net income.***

The amount of cash we have available for distribution depends primarily on our cash flow and not solely on profitability, which will be affected by non-cash items. As a result, we may make cash distributions during periods when we record net losses for financial accounting purposes and may not make cash distributions during periods when we record net income for financial accounting purposes.

***On a pro forma basis we would not have had sufficient cash available for distribution to pay the full minimum quarterly distribution on all of our common units or any of our subordinated units for the fiscal year ended March 31, 2010 or the twelve months ended December 31, 2010.***

The amount of pro forma cash available for distribution generated during the fiscal year ended March 31, 2010 and the twelve months ended December 31, 2010 would have been sufficient to allow us to pay a cash distribution of approximately 95.7% and 78.9%, respectively, of the minimum quarterly distribution on all of our common units and no cash distribution on any of our subordinated units during those periods. For a calculation of our ability to make cash distributions to our unitholders based on our pro forma results for the fiscal year ended March 31, 2010 and the twelve months ended December 31, 2010, please read "Our Cash Distribution Policy and Restrictions on Distributions."

***The assumptions that we make in the computation of our forecast of cash available for distribution included in "Our Cash Distribution Policy and Restrictions on Distributions" are inherently uncertain and are subject to significant business, economic, financial, regulatory and competitive risks and uncertainties, including weather conditions, that could cause actual results to differ materially from our forecasted results.***

The forecast of cash available for distribution in "Our Cash Distribution Policy and Restrictions on Distributions" includes our forecasted results of operations, Adjusted EBITDA and cash available for distribution for the twelve months ending March 31, 2012. We prepared the financial forecast, and we have not received an opinion or report on such forecast from our or any other independent auditor. The assumptions underlying the forecast are inherently uncertain and are subject to significant business, economic, financial, regulatory and competitive risks and uncertainties, including weather conditions, that could cause actual results to differ materially from those forecasted. If we do not achieve the forecasted results, we may be unable to pay the full minimum quarterly distribution or any amount on our common units or subordinated units, in which event the market price of our common units may decline materially.

***Current conditions in the global capital and credit markets, and general economic pressures, may adversely affect our financial position and results of operations.***

Our business and operating results are materially affected by worldwide economic conditions. Current conditions in the global capital and credit markets and general economic pressures have led to declining consumer and business confidence, increased market volatility and widespread reduction of business activity generally. As a result of this turmoil, coupled with increasing energy prices, our customers may experience cash flow shortages which may lead to delayed or cancelled plans to purchase our products, and affect the ability of our customers to pay for our products. In addition, disruptions in the U.S. residential mortgage market, increases in mortgage foreclosure rates and failures of lending institutions may adversely affect retail customer demand for our products (in particular, products used for home heating and home comfort equipment) and our business and results of operations.

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***Our retail propane operations are concentrated in the Midwest and Southeast, and localized warmer weather and/or economic downturns may adversely affect demand for propane in those regions, thereby affecting our financial condition and results of operations.***

A substantial portion of our retail propane sales are to residential customers located in the Midwest and Southeast who rely heavily on propane for heating purposes. On a combined pro forma basis for the fiscal year ended March 31, 2010, approximately 77% of our retail propane volume was attributable to sales during the peak heating season of October through March. Warmer weather may result in reduced sales volumes that could adversely impact our operating results and financial condition. In addition, adverse economic conditions in areas where our retail propane operations are concentrated may cause our residential customers to reduce their use of propane regardless of weather conditions. Localized warmer weather and/or economic downturns may have a significantly greater impact on our operating results and financial condition than if our retail propane business were less concentrated.

***Widely fluctuating propane prices could adversely affect our ability to finance our working capital needs.***

The price for propane is subject to wide fluctuations and depends on numerous factors beyond our control. If propane prices were to increase substantially, our working capital needs would increase to the extent that we are required to maintain propane inventory that has not been pre-sold and our ability to finance our working capital could be adversely affected. If propane prices were to decline significantly for a prolonged period, the decreased value of our propane inventory could potentially result in a reduction of the borrowing base under our working capital facility and we could be required to liquidate propane inventory that we have already pre-sold.

***We have certain agreements with ConocoPhillips related to the operation and maintenance of two of our propane terminals, our propane supply, the lease of a propane storage facility in Borger, Texas and the right to utilize ConocoPhillips' capacity as a shipper on the Blue Line pipeline. The termination of, or significant modification to, these agreements could have a negative impact on our financial condition and results of operations.***

In connection with the purchase by NGL Supply of the propane terminals of ConocoPhillips, we executed several agreements in November 2002, including the following:

an operating and maintenance agreement for the propane terminals and common facilities located in Missouri and Illinois;

a propane supply agreement under which we are able to purchase, exchange and deliver specified gallons of propane per week and access the ConocoPhillips Blue Line pipeline to ship propane from Borger, Texas and the Conway, Kansas storage hubs to our propane terminal locations in Missouri and Illinois, including the right to utilize ConocoPhillips' capacity as a shipper on the Blue Line pipeline from September 15 through March 15 each year; and

a propane storage lease agreement under which we have leased storage space of approximately 36 million gallons in Borger, Texas.

The operating and maintenance agreement and the propane supply agreement each expire in November 2012 and provide for a five-year extension period at our option followed by a year-to-year continuation. The propane storage lease agreement expires in March 2012, and we are in discussions with ConocoPhillips regarding the extension of this agreement. Significant changes to such agreements or our inability to extend such agreements could have a negative effect on our financial condition and results of operations.

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*If we do not successfully identify acquisition candidates, complete accretive acquisitions on economically acceptable terms or adequately integrate the acquired operations into our existing operations, our future financial performance may be adversely affected and our growth may be limited.*

The propane industry is a mature industry. We anticipate only limited growth in total national demand for propane in the near future. Increased competition from alternative energy sources has limited growth in the propane industry, and year-to-year industry volumes are primarily impacted by fluctuations in weather and economic conditions. In addition, our retail propane business concentrates on sales to residential customers, but because of longstanding customer relationships that are typical in the retail residential propane industry, the inconvenience of switching tanks and suppliers and propane's generally higher cost as compared to certain other energy sources, we may have difficulty in increasing our retail customer base other than through acquisitions. Therefore, while our business strategy includes expanding our existing operations through internal growth, our ability to grow within the industry will depend principally on acquisitions.

There can be no assurance that we will identify attractive acquisition candidates in the future, that we will be able to acquire such businesses on economically acceptable terms, that any acquisitions will not be dilutive to earnings and distributions or that any additional debt that we incur to finance an acquisition will not affect our ability to make distributions to unitholders. Covenants in our revolving credit facility may also limit the amount and types of indebtedness that we may incur to finance acquisitions and any new debt we incur to finance acquisitions may adversely affect our ability to make distributions to our unitholders.

In addition, we may be unable to grow as rapidly as we expect through acquiring additional businesses after the completion of this offering for various reasons, including the following:

We will use our cash from operations primarily for reinvestment in our business and distributions to unitholders. The extent to which we are unable to use cash or access capital to pay for additional acquisitions may limit our growth and impair operating results.

Due to the consolidation that has occurred in the retail propane industry, competition for acquisitions has intensified, making it more difficult to acquire businesses on economically acceptable terms.

Although we intend to use common units as an acquisition currency, some prospective sellers may be unwilling to accept units as consideration and their issuance in some circumstances may be dilutive to our existing unitholders.

Moreover, acquisitions involve potential risks, including:

the inability to integrate the operations of recently acquired businesses;

the assumption of unknown liabilities;

limitations on rights to indemnity from the seller;

mistaken assumptions about the overall costs of equity or debt or synergies;

unforeseen difficulties operating in new geographic areas;

the diversion of management's and employees' attention from other business concerns;

customer or key employee loss from the acquired businesses; and

a significant increase in our indebtedness and related interest expense.

If we consummate any future acquisitions, our capitalization and results of operations may change significantly, and unitholders will not have the opportunity to evaluate the economic, financial and other

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relevant information that we will consider in determining the application of these funds and other resources.

***Part of our growth strategy includes acquiring businesses with operations that may be distinct and separate from our existing operations, which could subject us to additional business and operating risks.***

We may expand our operations into businesses that differ from our existing operations, such as the natural gas midstream business (including, but not limited to, natural gas gathering, processing and transportation). Integration of new businesses is a complex, costly and time-consuming process and may involve assets with which we have limited operating experience. Failure to timely and successfully integrate acquired businesses into our existing operations may have a material adverse effect on our business, financial condition or results of operations. The difficulties of integrating new businesses into our existing operations include, among other things: operating distinct businesses that require different operating strategies and different managerial expertise; the necessity of coordinating organizations, systems and facilities in different locations; integrating personnel with diverse business backgrounds and organizational cultures; and consolidating corporate and administrative functions. In addition, the diversion of our attention and any delays or difficulties encountered in connection with the integration of the new businesses, such as unanticipated liabilities or costs, could harm our existing business, results of operations, financial condition or prospects. Furthermore, new businesses will subject us to additional business and operating risks such as the acquisitions not being accretive to our unitholders as a result of decreased profitability, increased interest expense related to debt we incur to make such acquisitions or an inability to successfully integrate those operations into our overall business operation. The realization of any of these risks could have a material adverse effect on our financial condition or results of operations.

***Debt we incur in the future may limit our flexibility to obtain financing and to pursue other business opportunities.***

Our future level of debt could have important consequences to us, including the following:

our ability to obtain additional financing, if necessary, for working capital, capital expenditures, acquisitions or other purposes may be impaired or such financing may not be available on favorable terms;

our funds available for operations, future business opportunities and distributions to unitholders will be reduced by that portion of our cash flow required to make principal and interest payments on our debt;

we may be more vulnerable to competitive pressures or a downturn in our business or the economy generally; and

our flexibility in responding to changing business and economic conditions may be limited.

Our ability to service our debt will depend on, among other things, our future financial and operating performance, which will be affected by prevailing economic and weather conditions and financial, business, regulatory and other factors, some of which are beyond our control. If our operating results are not sufficient to service our future indebtedness, we will be forced to take actions such as reducing distributions, reducing or delaying our business activities, acquisitions, investments or capital expenditures, selling assets or seeking additional equity capital. We may be unable to effect any of these actions on satisfactory terms or at all.

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***Restrictions in our revolving credit facility could adversely affect our business, financial condition, results of operations, ability to make distributions to unitholders and the value of our common units.***

Our revolving credit facility limits our ability to, among other things:

incur additional debt or letters of credit;

redeem or repurchase units;

make certain loans, investments and acquisitions;

incur certain liens or permit them to exist;

engage in sale and leaseback transactions;

prepay, redeem or purchase certain indebtedness;

enter into certain types of transactions with affiliates;

enter into agreements limiting subsidiary distributions;

change the nature of our business or enter into a substantially different business;

merge or consolidate with another company; and

transfer or otherwise dispose of assets.

After the completion of this offering, we are permitted to make distributions to our unitholders under our revolving credit facility so long as no default or event of default exists both immediately before and after giving effect to the declaration and payment of the distribution and the distribution does not exceed available cash for such quarterly period. Our revolving credit facility also contains covenants requiring us to maintain certain financial ratios. Please read "Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity, Sources of Capital and Capital Resource Activities."

The provisions of our revolving credit facility may affect our ability to obtain future financing and pursue attractive business opportunities and our flexibility in planning for, and reacting to, changes in business conditions. In addition, a failure to comply with the provisions of our revolving credit facility could result in a covenant violation, default or an event of default that could enable our lenders, subject to the terms and conditions of our revolving credit facility, to declare the outstanding principal of that debt, together with accrued and unpaid interest, to be immediately due and payable. If we were unable to repay the accelerated amounts, our lenders could proceed against the collateral we granted them to secure our debts. If the payment of our debt is accelerated, defaults under our other debt instruments, if any then exist, may be triggered, and our assets may be insufficient to repay such debt in full, and our unitholders could experience a partial or total loss of their investment.

***Increases in interest rates could adversely impact our unit price, our ability to issue equity or incur debt for acquisitions or other purposes, and our ability to make cash distributions at our intended levels.***



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Interest rates may increase in the future. As a result, interest rates on our existing and future credit facilities and debt offerings could be higher than current levels, causing our financing costs to increase accordingly. As with other yield-oriented securities, our unit price will be impacted by our level of cash distributions and implied distribution yield. The distribution yield is often used by investors to compare and rank yield-oriented securities for investment decision-making purposes. Therefore, changes in interest rates, either positive or negative, may affect the yield requirements of investors who invest in our units, and a rising interest rate environment could have an adverse impact on our unit price and our ability to issue equity or incur debt for acquisitions or other purposes and to make cash distributions at our intended levels.

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***Our results of operations could be negatively impacted by price and inventory risk related to our business and management of these risks.***

Generally, we attempt to maintain an inventory position that is substantially balanced between our purchases and sales, including our future delivery obligations. We attempt to obtain a certain gross margin for our propane purchases by selling our propane to our wholesale and retail market customers which include third-party consumers, other wholesalers and retailers, and others. Our strategy may be ineffective in limiting our price and inventory risks if, for example, market, weather or other conditions prevent or allocate the delivery of physical product during periods of peak demand. If the market price falls below the cost at which we made such purchases, it could adversely affect our profits. Any event that disrupts our expected supply of propane could expose us to a risk of loss through price changes if we were required to obtain supply at increased prices that cannot be passed through to our customers. While we attempt to balance our inventory position through our normal risk management policies and practices, it is not possible to eliminate all price risks.

***Our risk management policies cannot eliminate all risks. In addition, any non-compliance with our risk management policies could result in significant financial losses.***

Although we have risk management policies and systems that are intended to quantify and manage risk, some degree of exposure to unforeseen fluctuations in market conditions remains. In addition, our wholesale operations involve a level of risk from non-compliance with our stated risk management policies. We monitor processes and procedures to prevent unauthorized trading and to maintain substantial balance between purchases and future sales and delivery obligations. However, we cannot assure you that our processes will detect and prevent all violations of our risk management policies, particularly if such violation involves deception or other intentional misconduct. There is no assurance that our risk management procedures will prevent losses that would negatively affect our business, financial condition and results of operations.

***The counterparties to our commodity derivative and physical purchase and sale contracts may not be able to perform their obligations to us, which could materially affect our cash flows and results of operations.***

We encounter risk of counterparty non-performance primarily in our wholesale supply and marketing business. Disruptions in the supply of propane and in the oil and gas commodities sector overall for an extended or near term period of time could result in counterparty defaults on our derivative and physical purchase and sale contracts. This could impair our ability to obtain supply to fulfill our sales delivery commitments or obtain supply at reasonable prices, which could result in decreased gross margins and profitability, thereby impairing our ability to make distributions to our unitholders.

***Our use of derivative financial instruments could have an adverse effect on our results of operations.***

We have used derivative financial instruments as a means to protect against commodity price risk or interest rate risk and expect to continue to do so. We may, as a component of our overall business strategy, increase or decrease from time to time our use of such derivative financial instruments in the future. Our use of such derivative financial instruments could cause us to forego the economic benefits we would otherwise realize if commodity prices or interest rates were to change in our favor. In addition, although we monitor such activities in our risk management processes and procedures, such activities could result in losses, which could adversely affect our results of operations and impair our ability to make distributions to our unitholders.

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***If the price of propane increases suddenly and sharply, we may be unable to pass on the increase to our retail customers and our retail customers may conserve their propane use or convert to alternative energy sources, thereby adversely affecting our profit margins.***

The propane industry is a "margin-based" business in which our realized gross margins depend on the differential of sales prices over our total supply costs. Our profitability is therefore sensitive to changes in the wholesale prices of propane caused by changes in supply or other market conditions. The timing of cost increases by our propane suppliers can significantly affect our gross margins because we may be unable to immediately pass through rapid increases in the wholesale costs of propane to our retail customers, if at all. We have no control over supply or market conditions. In general, product supply contracts permit suppliers to charge posted prices at the time of delivery or the current prices established at major storage points. Sudden and extended wholesale price increases could reduce our gross margins and could, if continued over an extended period of time, reduce demand by encouraging our retail customers to conserve or convert to alternative energy sources.

***If we fail to design or maintain an effective system of internal controls, including internal controls over financial reporting, we may be unable to report our financial results accurately or prevent fraud, which would likely have a negative impact on the market price of our common units.***

Prior to this offering, we have not been required to file reports with the SEC. Upon the completion of this offering, we will become subject to the public reporting requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act. We prepare our consolidated financial statements in accordance with GAAP, but our internal accounting controls may not currently meet all standards applicable to companies with publicly traded securities. Effective internal controls are necessary for us to provide reliable financial reports, prevent fraud and to operate successfully as a publicly traded partnership. Our efforts to develop and maintain our internal controls may be unsuccessful, and we may be unable to maintain effective controls over financial reporting, including our disclosure controls, in the future or to comply with our reporting obligations under Section 404 of the Sarbanes-Oxley Act of 2002, or Section 404. For example, Section 404 will require us, among other things, to annually review and report on, and our independent registered public accounting firm to attest to, the effectiveness of our internal controls over financial reporting. We must comply with Section 404 for our fiscal year ending March 31, 2012. We will also be required to perform quarterly evaluations of our disclosure controls beginning the first quarter after we become public and will be required to report the results of each such evaluation in our Form 10-Q each quarter.

Any failure to develop, implement or maintain effective internal controls over financial reporting and disclosure controls or to improve our internal controls, in particular any identified material weaknesses in such controls, could harm our operating results or cause us to fail to meet our reporting obligations. Given the difficulties inherent in the design and operation of internal controls over financial reporting, we can provide no assurance as to our, or our independent registered public accounting firm's, conclusions about the effectiveness of our internal controls, and we may incur significant costs in our efforts to comply with Section 404. Ineffective internal controls will subject us to regulatory scrutiny and a loss of confidence in our reported financial information, which could have an adverse effect on our business and would likely have a negative effect on the trading price of our common units.

***Material weaknesses were previously identified in the internal control over financial reporting of certain of the businesses that were conveyed to us in the formation transactions. If we fail to establish and maintain effective internal control over financial reporting, our ability to accurately report our financial results could be adversely affected.***

In connection with its audits of the consolidated financial statements of certain of the businesses contributed to us in the formation transactions, Grant Thornton LLP, independent registered public accountants, identified material weaknesses in the internal controls over financial reporting of these acquired businesses. A "material weakness" is a deficiency, or a combination of deficiencies, in internal

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control, such that there is a reasonable possibility that a material misstatement in financial statements would not be prevented, or detected on a timely basis. If the measures we have taken to address the material weaknesses relating to these acquired businesses are not effective or we are unable to maintain any other necessary controls we may implement in the future, our management might not be able to certify, and our independent registered public accounting firm might not be able to report on, the adequacy of our internal controls over financial reporting when required to do so by the Sarbanes-Oxley Act of 2002 and the rules adopted by the SEC thereunder. If we fail to maintain adequate internal controls in the future or otherwise experience material weaknesses in our internal controls over financial reporting, such event could adversely effect our ability to accurately report our financial results, cause investors to lose confidence in our financial reporting and cause the trading price of our common units to decline.

***Natural disasters, such as hurricanes, could have an adverse effect on our business, financial condition and results of operations.***

Hurricanes and other natural disasters could cause serious damage or destruction to homes, business structures and the operations of our retail and wholesale customers. For example, any such disaster that occurred in the Gulf Coast region could seriously disrupt the supply of propane and cause serious shortages in various areas, including the areas in which we operate. Such disruptions could potentially have a material adverse impact on our business, financial condition, results of operations and cash flows, which could impair our ability to make distributions to our unitholders.

***An impairment of goodwill and intangible assets could reduce our earnings.***

On a combined pro forma basis, as of December 31, 2010, we had reported goodwill and intangible assets of approximately \$24.5 million. Such assets are subject to impairment reviews on an annual basis or earlier if information indicates that such asset values have been impaired. Any impairment we would be required to record under GAAP would result in a charge to our income, which would reduce our earnings.

***The highly competitive nature of the retail propane business could cause us to lose customers, affect our ability to acquire new customers in our existing locations, thereby reducing our revenues or impairing our ability to expand our operations.***

We encounter competition with other retail propane companies who are larger and have substantially greater financial resources than we do, which may provide them with certain advantages. Also, because of relatively low barriers to entry into the retail propane business, numerous small retail propane distributors, as well as companies not engaged in retail propane distribution, may enter our markets and compete with our retail business. Some rural electric cooperatives and fuel oil distributors have expanded their businesses to include propane distribution. As a result, we are subject to the risk of additional competition in the future. The principal factors influencing competition with other retail propane businesses are:

price;

reliability and quality of service;

responsiveness to customer needs;

safety standards and compliance with such standards;

long-standing customer relationships;

the inconvenience of switching tanks and suppliers; and

the lack of growth in the industry.



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We can make no assurances that we will be able to compete successfully on the basis of these factors. If a competitor attempts to increase market share by reducing prices, we may lose customers, which would reduce our revenues.

***If we are unable to purchase propane from our principal suppliers, our results of operations would be adversely affected.***

During the fiscal year ended March 31, 2010, three of our suppliers accounted for approximately 51% of our volume of propane purchases on a combined pro forma basis. If we are unable to purchase propane from significant suppliers, our failure to obtain alternate sources of supply at competitive prices and on a timely basis would adversely affect our ability to satisfy customer demand, reduce our revenues and adversely affect our results of operations.

***Our business requires extensive credit risk management that may not be adequate to protect against customer nonpayment.***

The risk of nonpayment by customers is a concern in all of our operating segments, and our procedures may not fully eliminate this risk. We manage our credit risk exposure through credit analysis, credit approvals, establishing credit limits, requiring prepayments (partially or wholly), requiring propane deliveries over defined time periods and credit monitoring. While we believe our procedures are effective, we can provide no assurance that bad debt write-offs in the future may not be significant and any such non-payment problems could impact our results of operations and potentially limit our ability to make distributions to our unitholders.

***Our business would be adversely affected if service at our principal storage facilities or on the common carrier pipelines we use is interrupted.***

Historically, a substantial portion of our propane supply has originated from storage facilities at Borger, Texas; Conway and Bushton Kansas; Mt. Belvieu, Texas; and Sarnia, Ontario Canada and has been shipped to us or by us to our service areas through seven common carrier pipelines. Any significant interruption in the service at these storage facilities or on the common carrier pipelines we use would adversely affect our ability to obtain propane.

***We could be required to provide linefill on certain of the pipelines on which we ship product. This could require the use of our working capital, which could potentially impact our ability to borrow additional amounts under our working capital facility to conduct our operations or to make distributions to our unitholders.***

We have not historically been required to provide the linefill for certain pipelines on which we transport propane and other natural gas liquids. "Linefill" is the pre-determined minimum level of propane a common carrier could require us to maintain in its pipeline and storage in order to facilitate the lifting of product by our customers. If we were required to provide any portion of the linefill, we would have to purchase propane that would have to remain in the pipeline for an extended period of time. Such a requirement would expose us to inventory and price risk and could negatively impact our working capital position, our liquidity, our availability under our working capital facility and our ability to make distributions to our unitholders.

***Our propane terminaling operations depend on neighboring pipelines to transport propane.***

We own propane terminals in Jefferson City, Missouri; East St. Louis, Illinois; and St. Catharines, Ontario. These facilities depend on pipeline and storage systems that are owned and operated by third parties. Any interruption of service on the pipeline or lateral connections or adverse change in the terms and conditions of service could have a material adverse effect on our ability, and the ability of our customers, to transport propane to and from our facilities and have a corresponding material adverse

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effect on our terminaling revenues. In addition, the rates charged by the interconnected pipelines for transportation to and from our facilities affect the utilization and value of our terminaling services. We have historically been able to pass through the costs of pipeline transportation to our customers. However, if competing pipelines do not have similar annual tariff increases or service fee adjustments, such increases could affect our ability to compete, thereby adversely affecting our terminaling revenues.

***Our financial results are seasonal and generally lower in the first and second quarters of our fiscal year, which may require us to borrow money to make distributions to our unitholders during these quarters.***

The inventory we have pre-sold to customers is highest during summer months, and our cash receipts are lowest during summer months. As a result, our cash available for distribution for the summer is much lower than for the winter. With lower cash flow during the first and second fiscal quarters, we may be required to borrow money to pay distributions to our unitholders during these quarters. Any restrictions on our ability to borrow money could restrict our ability to pay the minimum quarterly distributions to our unitholders.

***We are subject to operating and litigation risks that could adversely affect our operating results to the extent not covered by insurance.***

Our operations are subject to all operating hazards and risks incident to handling, storing, transporting and providing customers with combustible liquids such as propane. As a result, we may be a defendant in various legal proceedings and litigation arising in the ordinary course of business. We are self-insured for non catastrophic occurrences, but not for all risks inherent in our business. We may be unable to maintain or obtain insurance of the type and amount we desire at reasonable rates in the future. As a result of market conditions, premiums and deductibles for certain of our insurance policies may substantially increase. In some instances, certain insurance could become unavailable or available only for reduced amounts of coverage. We carry limited environmental insurance, thus, losses could occur for uninsurable or uninsured risks or in amounts in excess of existing insurance coverage. The occurrence of an event that is not covered in full or in part by insurance could have a material adverse impact on our business activities, financial condition and results of operations.

***Our results of operations and financial condition may be adversely affected by governmental regulation and associated environmental, health, and safety costs.***

The propane business is subject to a wide range of federal, state and local laws and regulations related to environmental, health, and safety matters. These laws and regulations may impose numerous obligations that are applicable to our operations, including obtaining, maintaining and complying with permits to conduct regulated activities, incurring capital or operating expenditures to limit or prevent releases of materials from our facilities, and imposing substantial liabilities and remedial obligations relating to, among other things, emissions into the air and water, habitat and endangered species degradation and the release and disposal of hazardous substances, that may result from our operations. Numerous governmental authorities, such as the U.S. Environmental Protection Agency, or the EPA, and analogous state agencies, have the power to enforce compliance with these laws and regulations and the permits issued under them, oftentimes requiring difficult and costly actions. Failure to comply with these laws, regulations and permits may result in the assessment of administrative, civil and criminal penalties, the imposition of remedial obligations, the suspension or revocation of necessary permits, licenses and authorizations, the requirement that additional pollution controls be installed and the issuance of injunctions limiting or preventing some or all of our operations. In addition, we may experience a delay in obtaining or be unable to obtain required permits, which may cause us to lose potential and current customers, interrupt our operations and limit our growth and revenues.

Under certain environmental laws that impose strict, joint and several liability, we may be required to remediate our contaminated properties regardless of whether such contamination resulted from the

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conduct of others or from consequences of our own actions that were in compliance with all applicable laws at the time those actions were taken. In addition, claims for damages to persons, property or natural resources may result from environmental and other impacts of our operations. Moreover, new or modified environmental, health or safety laws, regulations or enforcement policies could be more stringent and impose unforeseen liabilities or significantly increase compliance costs. Therefore, the costs to comply with environmental, health, or safety laws or regulations or the liabilities incurred in connection with them could significantly and adversely affect our business, financial condition or results of operations.

The United States continues to move towards regulation of "greenhouse gases," including methane, a primary component of natural gas, and carbon dioxide, a byproduct of burning natural gas and oil, and over one-third of the states have already adopted some legal measures to reduce emissions of greenhouse gases, primarily through the planned development of greenhouse gas emission inventories and/or regional greenhouse gas cap-and-trade programs. There were bills pending before the 111th Congress proposing various forms of greenhouse gas regulation, including the American Clean Energy Security, or ACES, Act that, among other things, would have established a cap-and-trade system to regulate greenhouse gas emissions and would have required an 80% reduction in "greenhouse gas" emissions from sources within the United States between 2012 and 2050. Although the ACES Act did not pass the Senate and was not enacted by the 111th Congress, the United States Congress is likely to again consider a climate change bill in the future.

In December 2009, the EPA issued an "endangerment finding" under the federal Clean Air Act, which allowed the agency to adopt and implement greenhouse gas regulations. In 2010, the EPA adopted and proposed regulations requiring certain mandatory reporting of greenhouse gas emissions, including from upstream oil and gas facilities and large stationary sources of air emissions. Broader regulation is in early stages of development in the United States, and, thus, we are currently unable to determine the impact of potential greenhouse gas emission control requirements. Mandatory greenhouse gas emissions reductions may impose increased costs on our business and could adversely impact some of our operations. It is possible that broader national or regional greenhouse gas reduction requirements, including on our suppliers, may have direct or indirect adverse impacts on the propane industry. Please read "Business Government Regulation."

***Competition from alternative energy sources may cause us to lose customers, thereby negatively impacting our financial condition and results of operations.***

Propane competes with other sources of energy, some of which are less costly for equivalent energy value. We compete for customers against suppliers of electricity, natural gas and fuel oil. Competition from alternative energy sources, including electricity and natural gas, has increased as a result of reduced regulation of many utilities, including electricity and natural gas. Electricity is a major competitor of propane, but propane has historically enjoyed a competitive price advantage over electricity. Except for some industrial and commercial applications, propane is generally not competitive with natural gas in areas where natural gas pipelines already exist because such pipelines generally make it possible for the delivered cost of natural gas to be less expensive than the bulk delivery of propane. The expansion of natural gas into traditional propane markets has historically been inhibited by the capital cost required to expand distribution and pipeline systems; however, the gradual expansion of the nation's natural gas distribution systems has resulted in natural gas being available in areas that previously depended on propane, which could cause us to lose customers, thereby reducing our revenues. Although propane is similar to fuel oil in some applications and market demand, propane and fuel oil compete to a lesser extent primarily because of the cost of converting from one to the other and due to the fact that both fuel oil and propane have generally developed their own distinct geographic markets. We cannot predict the effect that development of alternative energy sources may have on our operations.



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***Energy efficiency and new technology may reduce the demand for propane and adversely affect our operating results.***

The national trend toward increased conservation and technological advances, such as installation of improved insulation and the development of more efficient furnaces and other heating devices, has adversely affected the demand for propane by retail customers. Future conservation measures or technological advances in heating, conservation, energy generation or other devices may reduce demand for propane. In addition, if the price of propane increases, some of our customers may increase their conservation efforts and thereby decrease their consumption of propane.

***A significant increase in motor fuel prices may adversely affect our profits.***

Motor fuel is a significant operating expense for us in connection with the delivery of propane to our customers. A significant increase in motor fuel prices will result in increased transportation costs to us. The price and supply of motor fuel is unpredictable and fluctuates based on events we cannot control, such as geopolitical developments, supply and demand for oil and gas, actions by oil and gas producers, war and unrest in oil producing countries and regions, regional production patterns and weather concerns. As a result, any increases in these prices may adversely affect our profitability and competitiveness.

***The risk of terrorism and political unrest in various energy producing regions may adversely affect the economy and the supply of crude oil and the price and availability of propane, fuel oil and other refined fuels and natural gas.***

An act of terror in any of the major energy producing regions of the world could potentially result in disruptions in the supply of crude oil and natural gas, the major sources of propane, which could have a material impact on the availability and price of propane. Terrorist attacks in the areas of our operations could negatively impact our ability to transport propane to our locations. These risks could potentially negatively impact our results of operations.

***The recent adoption of derivatives legislation by the U.S. Congress could have an adverse effect on our ability to hedge risks associated with our business.***

On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act, or the Dodd-Frank Act, was signed into law. The Dodd-Frank Act regulates derivative transactions, which include certain instruments used in our risk management activities. The Dodd-Frank Act contemplates that most swaps will be required to be cleared through a registered clearing facility and traded on a designated exchange or swap execution facility. There are some exceptions to these requirements for entities that use swaps to hedge or mitigate commercial risk. While we may ultimately be eligible for such exceptions, the scope of these exceptions is currently uncertain at this time, pending further definition through rulemaking proceedings. Among the other provisions of the Dodd-Frank Act that may affect derivative transactions are those relating to establishment of capital and margin requirements for certain derivative participants; establishment of business conduct standards, recordkeeping and reporting requirements; and imposition of position limits. Although the Dodd-Frank Act includes significant new provisions regarding the regulation of derivatives, the impact of those requirements will not be known definitely until regulations have been adopted by the SEC and the Commodities Futures Trading Commission. The new legislation and any new regulations could increase the operational and transactional cost of derivatives contracts and affect the number and/or creditworthiness of available counterparties to us.

***We depend on the leadership and involvement of key personnel for the success of our businesses.***

We have certain key individuals in our senior management who we believe are critical to the success of our business. The loss of leadership and involvement of those key management personnel

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could potentially have a material adverse impact on our business and possibly on the market value of our units.

**Risks Inherent in an Investment in Us**

***Our partnership agreement limits the fiduciary duties of our general partner to our unitholders and restricts the remedies available to our unitholders for actions taken by our general partner that might otherwise be breaches of fiduciary duty.***

Fiduciary duties owed to our unitholders by our general partner are prescribed by law and our partnership agreement. The Delaware Revised Uniform Limited Partnership Act, or the Delaware LP Act, provides that Delaware limited partnerships may, in their partnership agreements, restrict the fiduciary duties owed by the general partner to limited partners and the partnership. Our partnership agreement contains provisions that reduce the standards to which our general partner would otherwise be held by state fiduciary duty law. For example, our partnership agreement:

limits the liability and reduces the fiduciary duties of our general partner, while also restricting the remedies available to our unitholders for actions that, without these limitations, might constitute breaches of fiduciary duty. As a result of purchasing common units, our unitholders consent to some actions and conflicts of interest that might otherwise constitute a breach of fiduciary or other duties under applicable state law;

permits our general partner to make a number of decisions in its individual capacity, as opposed to in its capacity as our general partner. This entitles our general partner to consider only the interests and factors that it desires, and it has no duty or obligation to give any consideration to any interest of, or factors affecting, us, our affiliates or any limited partner. Examples include the exercise of its limited call right, its voting rights with respect to the units it owns and its determination whether or not to consent to any merger or consolidation of the partnership;

provides that our general partner shall not have any liability to us or our unitholders for decisions made in its capacity as general partner so long as it acted in good faith, meaning our general partner subjectively believed that the decision was in, or not opposed to, the best interests of the partnership;

generally provides that affiliated transactions and resolutions of conflicts of interest not approved by the conflicts committee and not involving a vote of our unitholders must be on terms no less favorable to us than those generally being provided to or available from unrelated third parties or be "fair and reasonable" to us and that, in determining whether a transaction or resolution is "fair and reasonable," our general partner may consider the totality of the relationships between the parties involved, including other transactions that may be particularly favorable or advantageous to us; and

provides that our general partner and its officers and directors will not be liable for monetary damages to us or our limited partners for any acts or omissions unless there has been a final and non-appealable judgment entered by a court of competent jurisdiction determining that our general partner or those other persons acted in bad faith or engaged in fraud or willful misconduct.

By purchasing a common unit, a common unitholder will become bound by the provisions of our partnership agreement, including the provisions described above. Please read "Description of the Common Units" and "Transfer of Common Units."

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***Our general partner and its affiliates have conflicts of interest with us and limited fiduciary duties to our unitholders, and they may favor their own interests to the detriment of us and our unitholders.***

Following completion of the offering, the NGL Energy LP Investor Group will own a 75.8% limited partner interest in us (or a 72.7% limited partner interest in us if the underwriters exercise their option to purchase additional common units from us in full), and the NGL Energy GP Investor Group will own and control our general partner and its 0.1% general partner interest in us. Although our general partner has certain fiduciary duties to manage us in a manner beneficial to us and our unitholders, the executive officers and directors of our general partner have a fiduciary duty to manage our general partner in a manner beneficial to its owners. Furthermore, since certain executive officers and directors of our general partner are executive officers or directors of affiliates of our general partner, conflicts of interest may arise between the NGL Energy GP Investor Group and its affiliates, including our general partner, on the one hand, and us and our unitholders, on the other hand. As a result of these conflicts, our general partner may favor its own interests and the interests of its affiliates over the interests of our unitholders. Please read " Our partnership agreement limits the fiduciary duties of our general partner to our unitholders and restricts the remedies available to our unitholders for actions taken by our general partner that might otherwise be breaches of fiduciary duty." The risk to our unitholders due to such conflicts may arise because of the following factors, among others:

our general partner is allowed to take into account the interests of parties other than us, such as members of the NGL Energy GP Investor Group, in resolving conflicts of interest;

neither our partnership agreement nor any other agreement requires owners of our general partner to pursue a business strategy that favors us;

except in limited circumstances, our general partner has the power and authority to conduct our business without unitholder approval;

our general partner determines the amount and timing of asset purchases and sales, borrowings, issuance of additional partnership securities and the creation, reduction or increase of reserves, each of which can affect the amount of cash that is distributed to our unitholders;

our general partner determines the amount and timing of any capital expenditures and whether a capital expenditure is classified as a maintenance capital expenditure, which reduces operating surplus, or an expansion capital expenditure, which does not reduce operating surplus. This determination can affect the amount of cash that is distributed to our unitholders and to our general partner and the ability of the subordinated units to convert to common units;

our general partner determines which costs incurred by it are reimbursable by us;

our general partner may cause us to borrow funds to permit the payment of cash distributions, even if the purpose or effect of the borrowing is to make a distribution on the subordinated units, to make incentive distributions or to accelerate the expiration of the subordination period;

our partnership agreement permits us to classify up to \$20.0 million as operating surplus, even if it is generated from asset sales, non-working capital borrowings or other sources that would otherwise constitute capital surplus. This cash may be used to fund distributions on our subordinated units or to our general partner in respect of the general partner interest or the incentive distribution rights;

our partnership agreement does not restrict our general partner from causing us to pay it or its affiliates for any services rendered to us or entering into additional contractual arrangements with any of these entities on our behalf;

our general partner intends to limit its liability regarding our contractual and other obligations;

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our general partner may exercise its right to call and purchase all of the common units not owned by it and its affiliates if they own more than 80% of the common units;

our general partner controls the enforcement of the obligations that it and its affiliates owe to us;

our general partner decides whether to retain separate counsel, accountants or others to perform services for us; and

our general partner may elect to cause us to issue common units to it in connection with a resetting of the target distribution levels related to our general partner's incentive distribution rights without the approval of the conflicts committee of the board of directors of our general partner or our unitholders. This election may result in lower distributions to our common unitholders in certain situations.

In addition, certain members of the NGL Energy GP Investor Group and their affiliates currently hold interests in other companies in the energy and natural resource sectors, including the propane industry. Our partnership agreement provides that our general partner will be restricted from engaging in any business activities other than acting as our general partner and those activities incidental to its ownership interest in us. However, members of the NGL Energy GP Investor Group are not prohibited from engaging in other businesses or activities, including those that might be in direct competition with us. As a result, they could potentially compete with us for acquisition opportunities and for new business or extensions of the existing services provided by us.

Pursuant to the terms of our partnership agreement, the doctrine of corporate opportunity, or any analogous doctrine, does not apply to our general partner or any of its affiliates, including its executive officers, directors and owners. Any such person or entity that becomes aware of a potential transaction, agreement, arrangement or other matter that may be an opportunity for us will not have any duty to communicate or offer such opportunity to us. Any such person or entity will not be liable to us or to any limited partner for breach of any fiduciary duty or other duty by reason of the fact that such person or entity pursues or acquires such opportunity for itself, directs such opportunity to another person or entity or does not communicate such opportunity or information to us. This may create actual and potential conflicts of interest between us and affiliates of our general partner and result in less than favorable treatment of us and our unitholders. Please read "Conflicts of Interest and Fiduciary Duties."

***Even if our unitholders are dissatisfied, they have limited voting rights and are not entitled to elect our general partner or its directors.***

Unlike the holders of common stock in a corporation, unitholders have only limited voting rights on matters affecting our business and, therefore, limited ability to influence management's decisions regarding our business. Unitholders will have no right on an annual or ongoing basis to elect our general partner or its board of directors. The board of directors of our general partner is chosen entirely by its members and not by our unitholders. Unlike publicly traded corporations, we will not conduct annual meetings of our unitholders to elect directors or conduct other matters routinely conducted at annual meetings of stockholders of corporations. Furthermore, if the unitholders are dissatisfied with the performance of our general partner, they will have limited ability to remove our general partner. As a result of these limitations, the price at which the common units will trade could be diminished because of the absence or reduction of a takeover premium in the trading price. Our partnership agreement also contains provisions limiting the ability of unitholders to call meetings or to acquire information about our operations, as well as other provisions limiting the unitholders' ability to influence the manner or direction of management.

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***Our partnership agreement restricts the voting rights of unitholders owning 20% or more of our common units.***

Unitholders' voting rights are further restricted by a provision of our partnership agreement providing that any units held by a person that owns 20% or more of any class of units then outstanding, other than our general partner, its affiliates, their direct transferees and their indirect transferees approved by our general partner (which approval may be granted in its sole discretion) and persons who acquired such units with the prior approval of our general partner, cannot vote on any matter.

***Our general partner interest or the control of our general partner may be transferred to a third party without the consent of our unitholders.***

Our general partner may transfer its general partner interest to a third party in a merger or in a sale of all or substantially all of its assets without the consent of the unitholders. Furthermore, our partnership agreement does not restrict the ability of the members of the NGL Energy GP Investor Group to transfer all or a portion of its ownership interest in our general partner to a third party. The new owner of our general partner would then be in a position to replace the board of directors and officers of our general partner with its own designees and thereby exert significant control over the decisions made by the board of directors and officers.

***The incentive distribution rights of our general partner may be transferred to a third party.***

Prior to the first day of the first quarter beginning after the tenth anniversary of the closing date of this offering, a transfer of incentive distribution rights by our general partner requires (except in certain limited circumstances) the consent of a majority of our outstanding common units (excluding common units held by our general partner and its affiliates). However, after the expiration of this period, our general partner may transfer its incentive distribution rights to a third party at any time without the consent of our unitholders. If our general partner transfers its incentive distribution rights to a third party but retains its general partner interest, our general partner may not have the same incentive to grow our partnership and increase quarterly distributions to unitholders over time as it would if it had retained ownership of its incentive distribution rights.

***Our general partner has a limited call right that may require our unitholders to sell their common units at an undesirable time or price.***

If at any time our general partner and its affiliates own more than 80% of the common units, our general partner will have the right, which it may assign to any of its affiliates or to us, but not the obligation, to acquire all, but not less than all, of the common units held by unaffiliated persons at a price that is not less than their then-current market price, as calculated pursuant to the terms of our partnership agreement. As a result, our unitholders may be required to sell their common units at an undesirable time or price and may not receive any return or a negative return on their investment. Our unitholders may also incur a tax liability upon a sale of their units.

***Cost reimbursements to our general partner may be substantial and could reduce our cash available to make quarterly distributions to our unitholders.***

Prior to making any distribution on the common units, we will reimburse our general partner and its affiliates for all expenses they incur on our behalf, which will be determined by our general partner in its sole discretion in accordance with the terms of our partnership agreement. In determining the costs and expenses allocable to us, our general partner is subject to its fiduciary duty, as modified by our partnership agreement, to the limited partners, which requires it to act in good faith. These expenses will include all costs incurred by our general partner and its affiliates in managing and operating us. We are managed and operated by executive officers and directors of our general partner. Please read "Our Cash Distribution Policy and Restrictions on Distributions," "Certain Relationships and Related Party Transactions" and "Conflicts of Interest and Fiduciary Duties – Conflicts of Interest." The reimbursement of expenses and payment of fees, if any, to our general partner and its affiliates will reduce the amount of cash available for distribution to our unitholders.

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***Our partnership agreement requires that we distribute all of our available cash, which could limit our ability to grow and make acquisitions.***

We expect that we will distribute all of our available cash to our unitholders and will rely primarily on external financing sources, including commercial bank borrowings and the issuance of debt and equity securities, as well as reserves we have established to fund our acquisitions and expansion capital expenditures. As a result, to the extent we are unable to finance growth externally, our cash distribution policy will significantly impair our ability to grow.

In addition, because we distribute all of our available cash, our growth may not be as fast as that of businesses that reinvest their available cash to expand ongoing operations. To the extent we issue additional units in connection with any acquisitions or expansion capital expenditures, the payment of distributions on those additional units may increase the risk that we will be unable to maintain or increase our per unit distribution level. There are no limitations in our partnership agreement or our revolving credit facility on our ability to issue additional units, including units ranking senior to the common units. The incurrence of additional commercial borrowings or other debt to finance our growth strategy would result in increased interest expense, which, in turn, may impact the available cash that we have to distribute to our unitholders.

***We may issue additional units without the approval of our unitholders, which would dilute the interests of existing unitholders.***

Our partnership agreement does not limit the number of additional limited partner interests that we may issue at any time without the approval of our unitholders. Our issuance of additional common units or other equity securities of equal or senior rank will have the following effects:

our existing unitholders' proportionate ownership interest in us will decrease;

the amount of available cash for distribution on each unit may decrease;

because a lower percentage of total outstanding units will be subordinated units, the risk that a shortfall in the payment of the minimum quarterly distribution borne by our common unitholders will increase;

the ratio of taxable income to distributions may increase;

the relative voting strength of each previously outstanding unit may be diminished; and

the market price of the common units may decline.

***Our general partner, without the approval of our unitholders, may elect to cause us to issue common units while also maintaining its general partner interest in connection with a resetting of the target distribution levels related to its incentive distribution rights. This could result in lower distributions to our unitholders.***

Our general partner has the right, at any time when there are no subordinated units outstanding and it has received distributions on its incentive distribution rights at the highest level to which it is entitled (48.0%) for each of the prior four consecutive fiscal quarters, to reset the initial target distribution levels at higher levels based on our distributions at the time of the exercise of the reset election. Following a reset election by our general partner, the minimum quarterly distribution will be adjusted to equal the reset minimum quarterly distribution and the target distribution levels will be reset to correspondingly higher levels based on percentage increases above the reset minimum quarterly distribution.

If our general partner elects to reset the target distribution levels, it will be entitled to receive a number of common units. The number of common units to be issued to our general partner will be equal to that number of common units that would have entitled their holder to an average aggregate quarterly cash distribution in the prior two quarters equal to the average of the distributions to our general partner on the incentive distribution rights in the prior two quarters. We anticipate that our general partner would exercise this reset right to facilitate acquisitions or internal growth projects that would not be sufficiently accretive to cash distributions per common unit without such conversion. It is possible, however, that our general partner could exercise this reset election at a time when it is experiencing, or expects to experience, declines in the cash distributions it receives related to its incentive distribution rights and may, therefore, desire to be issued common units rather

than retain the right



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to receive distributions on its incentive distribution rights based on the initial target distribution levels. As a result, a reset election may cause our common unitholders to experience a reduction in the amount of cash distributions that our common unitholders would have otherwise received had we not issued new common units and general partner interests to our general partner in connection with resetting the target distribution levels.

***You will experience immediate and substantial dilution in pro forma net tangible book value of \$14.56 per common unit.***

The estimated initial public offering price of \$20.00 per common unit exceeds our pro forma net tangible book value of \$5.44 per common unit. Based on the estimated initial public offering price of \$20.00 per common unit (the midpoint of the price range set forth on the cover of this prospectus), you will incur immediate and substantial dilution of \$14.56 per common unit. This dilution results primarily because some of the assets contributed by our general partner and its affiliates are recorded at their historical cost, in accordance with GAAP, and not their fair value. Please read "Dilution."

***There is no existing market for our common units, and a trading market that will provide you with adequate liquidity may not develop. The price of our common units may fluctuate significantly, and our unitholders could lose all or part of their investment.***

Prior to this offering, there has been no public market for our common units. After the completion of this offering, there will be only 3,500,000 publicly traded common units (or 4,025,000 publicly traded common units if the underwriters exercise their option to purchase additional common units from us in full). The NGL Energy LP Investor Group will own an aggregate of 5,014,222 common and 5,919,346 subordinated units, representing an aggregate 75.7% limited partner interest in us. We do not know the extent to which investor interest will lead to the development of a trading market or how liquid that market might be. Our unitholders may be unable to resell their common units at or above the initial public offering price. Additionally, the lack of liquidity may result in wide bid-ask spreads, contribute to significant fluctuations in the market price of the common units and limit the number of investors who are able to buy the common units.

The initial public offering price for the common units was determined by negotiations between us and the representatives of the underwriters and may not be indicative of the market price of the common units that will prevail in the trading market. The market price of our common units may decline below the initial public offering price. The market price of our common units may also be influenced by many factors, some of which are beyond our control, including:

our quarterly distributions;

our quarterly or annual earnings or those of other companies in our industry;

announcements by us or our competitors of significant contracts or acquisitions;

changes in accounting standards, policies, guidance, interpretations or principles;

general economic conditions;

fluctuations in interest rates;

the failure of securities analysts to cover our common units after this offering or changes in financial estimates by analysts;

future sales of our common units; and

other factors described in these "Risk Factors."

***We will incur increased costs as a result of being a publicly traded partnership.***

We have no history operating as a publicly traded partnership. As a publicly traded partnership, we will incur significant legal, accounting and other expenses. In addition, the Sarbanes-Oxley Act of 2002 and related rules subsequently implemented by the SEC and the NYSE, have required changes in the corporate governance practices of publicly traded companies. We expect these rules and regulations to increase our legal and financial compliance costs and to make activities more time-consuming and costly. For example, as a result of becoming a publicly traded partnership, we are required to have at

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least three independent directors, create an audit committee and adopt policies regarding internal controls and disclosure controls and procedures, including the preparation of reports on internal controls over financial reporting. In addition, we will incur additional costs associated with our publicly traded partnership reporting requirements. We also expect these new rules and regulations to make it more difficult and more expensive for our general partner to obtain director and officer liability insurance and to possibly result in our general partner having to accept reduced policy limits and coverage. As a result, it may be more difficult for our general partner to attract and retain qualified persons to serve on its board of directors or as executive officers. We have included approximately \$1.0 million of estimated incremental annual administrative expenses that we expect to incur as a result of being a publicly traded partnership in our financial forecast included elsewhere in this prospectus. However, it is possible that our actual incremental costs of being a publicly traded partnership will be higher than we currently estimate.

***Our unitholders' liability may not be limited if a court finds that unitholder action constitutes control of our business.***

A general partner of a partnership generally has unlimited liability for the obligations of the partnership, except for those contractual obligations of the partnership that are expressly made without recourse to the general partner. Our partnership is organized under Delaware law, and we conduct business in a number of other states. The limitations on the liability of holders of limited partner interests for the obligations of a limited partnership have not been clearly established in some of the other states in which we do business. You could be liable for any and all of our obligations as if you were a general partner if a court or government agency were to determine that:

we were conducting business in a state but had not complied with that particular state's partnership statute; or

a unitholder's right to act with other unitholders to remove or replace our general partner, to approve some amendments to our partnership agreement or to take other actions under our partnership agreement constitute "control" of our business.

For a discussion of the implications of the limitations of liability on a unitholder, please read "The Partnership Agreement Limited Liability."

***Our unitholders may have liability to repay distributions that were wrongfully distributed to them.***

Under certain circumstances, unitholders may have to repay amounts wrongfully returned or distributed to them. Under Section 17-607 of the Delaware LP Act, we may not make a distribution to you if the distribution would cause our liabilities to exceed the fair value of our assets. Delaware law provides that for a period of three years from the date of an impermissible distribution, limited partners who received the distribution and who knew at the time of the distribution that it violated Delaware law will be liable to the limited partnership for the distribution amount. Substituted limited partners are liable both for the obligations of the assignor to make contributions to the partnership that were known to the substituted limited partner at the time it became a limited partner and for those obligations that were unknown if the liabilities could have been determined from the partnership agreement. Neither liabilities to partners on account of their partnership interests nor liabilities that are non-recourse to the partnership are counted for purposes of determining whether a distribution is permitted. For the purpose of determining the fair value of the assets of a limited partnership, the Delaware LP Act provides that the fair value of property subject to liability for which recourse of creditors is limited shall be included in the assets of the limited partnership only to the extent that the fair value of that property exceeds the nonrecourse liability.

## **Tax Risks to Common Unitholders**

In addition to reading the following risk factors, you should read "Material Tax Consequences" for a more complete discussion of the expected material federal income tax consequences of owning and disposing of common units.

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***Our tax treatment depends on our status as a partnership for federal income tax purposes. If the IRS were to treat us as a corporation for federal income tax purposes, our cash available for distribution to our unitholders would be substantially reduced.***

The anticipated after-tax economic benefit of an investment in our common units depends largely on our being treated as a partnership for federal income tax purposes. We have not requested, and do not plan to request, a ruling from the Internal Revenue Service, or IRS, on this or any other tax matter affecting us.

Despite the fact that we are a limited partnership under Delaware law, it is possible in certain circumstances for a partnership such as ours to be treated as a corporation for federal income tax purposes. Although we do not believe based on our current operations that we are or will be so treated, a change in our business (or a change in current law) could cause us to be treated as a corporation for federal income tax purposes or otherwise subject us to taxation as an entity.

If we were treated as a corporation for federal income tax purposes, we would pay federal income tax on our taxable income at the corporate tax rate, which is currently a maximum of 35%, and would likely pay state income tax at varying rates. Distributions to you would generally be taxed again as corporate dividends (to the extent of our current and accumulated earnings and profits), and no income, gains, losses or deductions would flow through to you. Because a tax would be imposed upon us as a corporation, our cash available for distribution to our unitholders would be substantially reduced. Therefore, treatment of us as a corporation would result in a material reduction in the anticipated cash flow and after-tax return to our unitholders, likely causing a substantial reduction in the value of our common units.

Our partnership agreement provides that if a law is enacted or existing law is modified or interpreted in a manner that subjects us to taxation as a corporation or otherwise subjects us to entity-level taxation for federal income tax purposes, the minimum quarterly distribution amount and the target distribution amounts may be adjusted to reflect the impact of that law on us.

***If we were subjected to a material amount of additional entity-level taxation by individual states, it would reduce our cash available for distribution to our unitholders.***

Changes in current state law may subject us to additional entity-level taxation by individual states. Because of widespread state budget deficits and other reasons, several states are evaluating ways to subject partnerships to entity-level taxation through the imposition of state income, franchise and other forms of taxation. Imposition of any such taxes may substantially reduce the cash available for distribution to our unitholders. Our partnership agreement provides that, if a law is enacted or existing law is modified or interpreted in a manner that subjects us to entity-level taxation, the minimum quarterly distribution amount and the target distribution amounts may be adjusted to reflect the impact of that law on us.

***The tax treatment of publicly traded partnerships or an investment in our common units could be subject to potential legislative, judicial or administrative changes and differing interpretations, possibly on a retroactive basis.***

The present federal income tax treatment of publicly traded partnerships, including us, or an investment in our common units may be modified by administrative, legislative or judicial interpretation at any time. Recently, members of Congress have considered substantive changes to the existing federal income tax laws that affect certain publicly traded partnerships. Any modification to the federal income tax laws and interpretations thereof may or may not be applied retroactively. Although we are unable to predict whether any of these changes, or other proposals, will ultimately be enacted, any such changes could negatively impact the value of an investment in our common units.

***If the IRS contests the federal income tax positions we take, the market for our common units may be adversely impacted and the cost of any IRS contest will reduce our cash available for distribution to our unitholders.***

We have not requested a ruling from the IRS with respect to our treatment as a partnership for federal income tax purposes or any other matter affecting us. The IRS may adopt positions that differ

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from the conclusions of our counsel expressed in this prospectus or from the positions we take. It may be necessary to resort to administrative or court proceedings to sustain some or all of our counsel's conclusions or the positions we take and such positions may not ultimately be sustained. A court may not agree with some or all of our counsel's conclusions or positions we take. Any contest with the IRS may materially and adversely impact the market for our common units and the price at which they trade. In addition, our costs of any contest with the IRS will be borne indirectly by our unitholders and our general partner because the costs will reduce our cash available for distribution.

***Our unitholders will be required to pay taxes on their share of our income even if they do not receive any cash distributions from us.***

Because our unitholders will be treated as partners to whom we will allocate taxable income which could be different in amount than the cash we distribute, you will be required to pay any federal income taxes and, in some cases, state and local income taxes on your share of our taxable income even if you receive no cash distributions from us. You may not receive cash distributions from us equal to your share of our taxable income or even equal to the actual tax liability that results from that income.

***Tax gain or loss on the disposition of our common units could be more or less than expected.***

If you sell your common units, you will recognize a gain or loss equal to the difference between the amount realized and your tax basis in those common units. Because distributions in excess of your allocable share of our net taxable income decrease your tax basis in your common units, the amount, if any, of such prior excess distributions with respect to the units you sell will, in effect, become taxable income to you if you sell such units at a price greater than your tax basis in those units, even if the price you receive is less than your original cost. Furthermore, a substantial portion of the amount realized on any sale of your common units, whether or not representing gain, may be taxed as ordinary income due to potential recapture items, including depreciation recapture. In addition, because the amount realized includes a unitholder's share of our nonrecourse liabilities, if you sell your units, you may incur a tax liability in excess of the amount of cash you receive from the sale. Please read "Material Tax Consequences – Disposition of Common Units – Recognition of Gain or Loss" for a further discussion of the foregoing.

***Tax-exempt entities and non-U.S. persons face unique tax issues from owning our common units that may result in adverse tax consequences to them.***

Investment in common units by tax-exempt entities, such as employee benefit plans and individual retirement accounts (known as IRAs), and non-U.S. persons raises issues unique to them. For example, virtually all of our income allocated to organizations that are exempt from federal income tax, including IRAs and other retirement plans, will be unrelated business taxable income and will be taxable to them. Distributions to non-U.S. persons will be reduced by withholding taxes at the highest applicable effective tax rate, and non-U.S. persons will be required to file U.S. federal income tax returns and pay tax on their share of our taxable income. If you are a tax exempt entity or a non-U.S. person, you should consult your tax advisor before investing in our common units.

***We will treat each purchaser of common units as having the same tax benefits without regard to the actual common units purchased. The IRS may challenge this treatment, which could adversely affect the value of the common units.***

Because we cannot match transferors and transferees of common units and because of other reasons, we will adopt depreciation and amortization positions that may not conform to all aspects of existing Treasury Regulations. A successful IRS challenge to those positions could adversely affect the amount of tax benefits available to you. It also could affect the timing of these tax benefits or the amount of gain from your sale of common units and could have a negative impact on the value of our common units or result in audit adjustments to your tax returns. Please read "Material Tax Consequences – Tax Consequences of Unit Ownership – Section 754 Election" for a further discussion of the effect of the depreciation and amortization positions we adopted.

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***We have a subsidiary that is treated as a corporation for federal income tax purposes and subject to corporate-level income taxes.***

We conduct a portion of our operations through a subsidiary that is a corporation for federal income tax purposes. We may elect to conduct additional operations in corporate form in the future. Our corporate subsidiary will be subject to corporate-level tax, which will reduce the cash available for distribution to us and, in turn, to our unitholders. If the IRS were to successfully assert that our corporate subsidiary has more tax liability than we anticipate or legislation was enacted that increased the corporate tax rate, our cash available for distribution to our unitholders would be further reduced.

***We prorate our items of income, gain, loss and deduction for U.S. federal income tax purposes between transferors and transferees of our units each month based on the ownership of our units on the first day of each month, instead of on the basis of the date a particular unit is transferred. The IRS may challenge this treatment, which could change the allocation of items of income, gain, loss and deduction among our unitholders.***

We will prorate our items of income, gain, loss and deduction between transferors and transferees of our units each month based on the ownership of our units on the first day of each month, instead of on the basis of the date a particular unit is transferred. The use of this proration method may not be permitted under existing Treasury Regulations. Recently, however, the U.S. Treasury Department issued proposed Treasury Regulations that provide a safe harbor pursuant to which publicly traded partnerships may use a similar monthly simplifying convention to allocate tax items among transferor and transferee unitholders. Nonetheless, the proposed regulations do not specifically authorize the use of the proration method we have adopted. If the IRS were to challenge our proration method or new Treasury Regulations were issued, we may be required to change the allocation of items of income, gain, loss and deduction among our unitholders. Akin Gump Strauss Hauer & Feld LLP has not rendered an opinion with respect to whether our monthly convention for allocating taxable income and losses is permitted by existing Treasury Regulations. Please read "Material Tax Consequences Disposition of Common Units Allocations Between Transferors and Transferees."

***A unitholder whose units are loaned to a "short seller" to effect a short sale of units may be considered as having disposed of those common units. If so, such unitholder would no longer be treated for federal income tax purposes as a partner with respect to those common units during the period of the loan and may recognize gain or loss from the disposition.***

Because a unitholder whose units are loaned to a "short seller" to effect a short sale of units may be considered as having disposed of the loaned units, he may no longer be treated for tax purposes as a partner with respect to those units during the period of the loan to the short seller and the unitholder may recognize gain or loss from such disposition. Moreover, during the period of the loan to the short seller, any of our income, gain, loss or deduction with respect to those units may not be reportable by the unitholder and any cash distributions received by the unitholder as to those units could be fully taxable as ordinary income. Akin Gump Strauss Hauer & Feld LLP has not rendered an opinion regarding the treatment of a unitholder where common units are loaned to a short seller to effect a short sale of common units; therefore, unitholders desiring to assure their status as partners and avoid the risk of gain recognition from a loan to a short seller are urged to consult a tax advisor to discuss whether it is advisable to modify any applicable brokerage account agreements to prohibit their brokers from borrowing their units.

***We will adopt certain valuation methodologies and monthly conventions for U.S. federal income tax purposes that may result in a shift of income, gain, loss and deduction between our general partner and our unitholders. The IRS may challenge this treatment, which could adversely affect the value of our common units.***

When we issue additional units or engage in certain other transactions, we will determine the fair market value of our assets and allocate any unrealized gain or loss attributable to our assets to the capital accounts of our unitholders and our general partner. Our methodology may be viewed as understating the value of our assets. In that case, there may be a shift of income, gain, loss and deduction between certain unitholders and the general partner, which may be unfavorable to such unitholders.

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Moreover, under our current valuation methods, subsequent purchasers of common units may have a greater portion of their Internal Revenue Code Section 743(b) adjustment allocated to our tangible assets and a lesser portion allocated to our intangible assets. The IRS may challenge our valuation methods, or our allocation of the Section 743(b) adjustment attributable to our tangible and intangible assets, and allocations of taxable income, gain, loss and deduction between the general partner and certain of our unitholders.

A successful IRS challenge to these methods or allocations could adversely affect the amount of taxable income or loss being allocated to our unitholders. It also could affect the amount of taxable gain from our unitholders' sale of common units and could have a negative impact on the value of the common units or result in audit adjustments to our unitholders' tax returns without the benefit of additional deductions. Akin Gump Strauss Hauer & Feld LLP has not rendered an opinion with respect to whether our method for depreciating Section 743 adjustments is sustainable in certain cases.

***The sale or exchange of 50% or more of our capital and profits interests during any twelve-month period will result in the termination of our partnership for federal income tax purposes.***

We will be considered to have technically terminated for federal income tax purposes if there is a sale or exchange of 50% or more of the total interests in our capital and profits within a twelve-month period. For purposes of determining whether the 50% threshold has been met, multiple sales of the same unit will be counted only once. While we would continue our existence as a Delaware limited partnership, our technical termination would, among other things, result in the closing of our taxable year for all unitholders, which would result in us filing two tax returns (and our unitholders could receive two Schedules K-1 if relief was not available, as described below) for one fiscal year and could result in a significant deferral of depreciation deductions allowable in computing our taxable income. In the case of a unitholder reporting on a taxable year other than a fiscal year ending December 31, the closing of our taxable year may also result in more than twelve months of our taxable income or loss being includable in his taxable income for the year of termination. A technical termination would not affect our classification as a partnership for federal income tax purposes, but instead, we would be treated as a new partnership for tax purposes. If treated as a new partnership, we must make new tax elections and could be subject to penalties if we are unable to determine that a technical termination occurred. The IRS has recently announced a relief procedure whereby if a publicly traded partnership that has technically terminated requests and the IRS grants special relief, among other things, the partnership will be required to provide only a single Schedule K-1 to unitholders for the tax years in which the termination occurs. Please read "Material Tax Consequences – Disposition of Common Units – Constructive Termination" for a discussion of the consequences of our termination for federal income tax purposes.

***As a result of investing in our common units, you may become subject to state and local taxes and return filing requirements in jurisdictions where we operate or own or acquire properties.***

In addition to federal income taxes, you will likely be subject to other taxes, including foreign, state and local taxes, unincorporated business taxes and estate, inheritance or intangible taxes that are imposed by the various jurisdictions in which we conduct business or own or control property now or in the future, even if you do not live in any of those jurisdictions. You will likely be required to file foreign, state and local income tax returns and pay state and local income taxes in some or all of these various jurisdictions. Further, you may be subject to penalties for failure to comply with those requirements. We will own assets and conduct business in a number of jurisdictions, including Georgia, Illinois, Indiana, Kansas, Mississippi, Missouri, Oklahoma and Texas. Each of these states, other than Texas, currently imposes a personal income tax on individuals. Most of these states also impose an income tax on corporations and other entities. As we make acquisitions or expand our business, we may own or control assets or conduct business in additional states that impose a personal income tax. It is your responsibility to file all U.S. federal, foreign, state and local tax returns. Akin Gump Strauss Hauer & Feld LLP has not rendered an opinion on the state or local tax consequences of an investment in our common units.

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**USE OF PROCEEDS**

We expect to receive net proceeds from the issuance and sale of 3,500,000 common units offered by this prospectus of approximately \$62.0 million after deducting underwriting discounts and commissions, a structuring fee and offering expenses (or approximately \$71.8 million if the underwriters exercise their option to purchase additional common units from us in full). We intend to use the net proceeds, including the net proceeds from the issuance and sale of any of the first 350,000 common units pursuant to an exercise of the underwriters' option to purchase additional common units from us, to repay amounts outstanding under our revolving credit facility (approximately \$65.0 million) and, to the extent that net proceeds remain after all amounts outstanding under our revolving credit facility are repaid, for working capital and general partnership purposes, which may include the acquisition of propane and midstream related businesses. There are no agreements, understandings or commitments with respect to any such acquisition at this time.

Our \$200.0 million revolving credit facility, as amended through April 2011, matures on October 10, 2014 and consists of a \$50.0 million working capital facility and a \$150.0 million acquisition facility. As of March 31, 2011, we had \$65.0 million outstanding under our revolving credit facility, with no amounts outstanding under our working capital facility and \$65.0 million outstanding under our acquisition facility. As of March 31, 2011, the amounts outstanding under our revolving credit facility have a weighted average interest rate of 3.96%. Substantially all of the amounts outstanding under our acquisition facility are remaining from the \$81.5 million we borrowed at the closing of our formation transactions to (i) make cash distributions to NGL Supply and Hicks LLC (approximately \$41.6 million), (ii) repay assumed indebtedness of NGL Supply and Hicks LLC (approximately \$34.4 million), (iii) pay a portion of the purchase price for Gifford (\$5.0 million) and (iv) pay related transactions costs (approximately \$0.5 million).

Our estimates assume an initial public offering price of \$20.00 per common unit (the midpoint of the price range set forth on the cover of this prospectus). An increase or decrease in the initial public offering price of \$1.00 per common unit would cause the net proceeds from the offering, after deducting underwriting discounts and commissions, a structuring fee and offering expenses, to increase or decrease by \$3.3 million. If the net proceeds increase due to a higher initial public offering price, we will use the additional proceeds to repay any remaining amounts outstanding under our revolving credit facility and, to the extent that net proceeds remain after all amounts outstanding under our revolving credit facility are repaid, for working capital and general partnership purposes. If the net proceeds decrease due to a lower initial public offering price, we will decrease our repayment of amounts outstanding under our revolving credit facility, or if we are still able to repay all amounts outstanding under our revolving credit facility, we will have less funds available for working capital or general partnership purposes.

We intend to use the net proceeds from any exercise by the underwriters of their option to purchase additional common units from us as follows: (i) the net proceeds from the issuance and sale of any of the first 350,000 common units (approximately \$6.5 million) will be used with the other net proceeds of this offering as described above after deducting underwriting discounts and commissions and a structuring fee and (ii) the net proceeds from the issuance and sale of any of the remaining 175,000 common units (approximately \$3.3 million) will be used to redeem from the NGL Energy LP Investor Group on a pro rata basis a number of common units equal to the number of common units issued upon exercise of that portion of the option at a price per common unit equal to the proceeds per common unit before expenses but after deducting underwriting discounts and commissions and a structuring fee. We will cancel the common units redeemed from the NGL Energy LP Investor Group so that they will no longer be outstanding. Members of the NGL Energy LP Investor Group will be deemed to be underwriters with respect to any common units so redeemed.

The underwriters may, from time to time, engage in transactions with and perform services for us and our affiliates in the ordinary course of business. Affiliates of Wells Fargo Securities, LLC, RBC Capital Markets, LLC, BOSCO, Inc. and SunTrust Robinson Humphrey, Inc. are lenders under our revolving credit facility and will receive their proportionate share of the repayment of amounts outstanding under our revolving credit facility by us in connection with this offering. Please read "Underwriting."



Table of Contents**CAPITALIZATION**

The following table shows:

our cash and cash equivalents and capitalization as of December 31, 2010; and

our pro forma cash and cash equivalents and capitalization as of December 31, 2010, adjusted to give effect to (i) the issuance and sale of 3,500,000 common units offered by this prospectus at an assumed initial public offering price of \$20.00 per common unit (the midpoint of the price range set forth on the cover of this prospectus), (ii) the split of each common unit held by the members of the NGL Energy LP Investor Group into 3.7219 common units, (iii) the conversion of 5,919,346 common units held by the NGL Energy LP Investor Group into 5,919,346 subordinated units (iv) a contribution of approximately \$70,000 by our general partner to maintain its 0.1% general partner interest and (v) the application of the net proceeds from this offering as described in "Use of Proceeds."

This table does not reflect the issuance of up to 525,000 common units that may be sold to the underwriters upon exercise of their option to purchase additional common units from us. We derived this table from, and it should be read in conjunction with and is qualified in its entirety by reference to, the historical and pro forma financial statements and the related notes included elsewhere in this prospectus. You should also read this table in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations."

	<b>As of December 31, 2010</b>	
	<b>Partnership</b>	
	<b>Pro</b>	
	<b>Historical</b>	<b>Forma(1)</b>
	<b>(in thousands)</b>	
Cash and cash equivalents	\$ 5,771	\$ 5,771
Total long-term debt (including current maturities)	\$ 88,316	\$ 25,246
Partners' equity:		
Common units public(2)(3)		62,000
Common units NGL Energy LP Investor Group	40,900	18,757
Subordinated units NGL Energy LP Investor Group		22,143
General partner interest	65	135
Accumulated other comprehensive income	32	32
Total partners' equity	40,997	103,067
Total capitalization	\$ 129,313	\$ 128,313

- (1) On a pro forma as adjusted basis, as of December 31, 2010, the public would have held 3,500,000 common units, the NGL Energy LP Investor Group would have held an aggregate of 5,014,222 common units and 5,919,346 subordinated units and our general partner would have held a 0.1% general partner interest in us.
- (2) An increase or decrease in the initial public offering price of \$1.00 per common unit would cause the public common unitholders' capital to increase or decrease by approximately \$3.3 million.

- (3) A 1,000,000 unit increase in the number of common units issued to the public would result in an approximate \$18.6 million increase in the public common unitholders' capital.
- (4) The table above excludes a distribution of \$3.8 million to be paid to the NGL Energy LP Investor Group in May 2011.

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**DILUTION**

Dilution is the amount by which the offering price paid by the purchasers of common units sold in this offering will exceed the pro forma net tangible book value per unit after the offering. Net tangible book value is our total tangible assets less total liabilities. Assuming an initial offering price of \$20.00 per common unit (the midpoint of the price range set forth on the cover of this prospectus) and that the underwriters do not exercise their option to purchase additional common units from us, on a pro forma basis as of December 31, 2010, as adjusted to give effect to the issuance and sale of 3,500,000 common units offered by this prospectus and the application of the net proceeds from this offering as described in "Use of Proceeds," our net tangible book value was approximately \$78.6 million, or \$5.44 per unit. Purchasers of common units in this offering will experience substantial and immediate dilution in net tangible book value per common unit for financial accounting purposes, as illustrated in the following table:

Assumed initial public offering price per common unit	\$	20.00
Net tangible book value per common unit before the offering(1)(4)(5)	\$	1.51
Increase in net tangible book value per common unit attributable to purchasers in the offering		3.93

Less: Pro forma net tangible book value per common unit after the offering(2) 5.44

Immediate dilution in net tangible book value per common unit to purchasers in the offering(3)(4) \$ 14.56

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- (1) Determined by dividing the net tangible book value of our assets and liabilities by the total number of units after giving effect to a 3.7219 to 1 split (5,014,222 common units, 5,919,346 subordinated units and the 0.1% general partner interest, which has a dilutive effect equivalent to approximately 10,945 units) held by our general partner and its affiliates. The number of units notionally represented by the 0.1% general partner interest is determined by multiplying the total number of units deemed to be outstanding (i.e., the total number of common and subordinated units outstanding divided by 99.9%) by the 0.1% general partner interest.
- (2) Determined by dividing the pro forma net tangible book value of our assets and liabilities after giving effect to the application of the expected net proceeds from this offering by the total number of units (8,514,222 common units, 5,919,346 subordinated units and the 0.1% general partner interest, which has a dilutive effect equivalent to approximately 14,449 units) to be outstanding after the offering.
- (3) If the initial public offering price were to increase or decrease by \$1.00 per common unit, then dilution in net tangible book value per common unit would equal \$15.33 and \$13.78, respectively.
- (4) Assumes no exercise of the underwriters' option to purchase additional common units from us. After giving effect to the full exercise of the underwriter's option to purchase 525,000 additional common units from us, and the redemption of approximately 175,000 common units from the NGL Energy LP Investor Group, the net tangible book value per common unit before the offering would be \$1.51, and the pro forma net tangible book value per common unit after the offering would be \$5.76, resulting in an immediate dilution in net tangible book value to purchasers in the offering of \$14.24 per common unit.
- (5) Excludes a distribution of \$3.8 million to be paid to the NGL Energy LP Investor Group in May 2011.

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The following table sets forth the number of units that we issued and the total consideration contributed to us by our general partner and its affiliates as described under "Summary Formation Transactions and Partnership Structure" and the number of units that we will issue and the total consideration that will be contributed to us by the purchasers of common units in this offering:

	No Exercise of Underwriters' Option to Purchase Additional Common Units From Us				Full Exercise of Underwriters' Option to Purchase Additional Common Units From Us(3)			
	Units Acquired		Total Consideration		Units Acquired		Total Consideration	
	Number	Percent	Amount (in thousands)	Percent	Number	Percent	Amount (in thousands)	Percent
General partner and affiliates(1)(2)	10,948,017	75.8%	\$ 34,979	36.1%	10,773,367	72.9%	\$ 31,734	30.6%
Purchasers in the offering	3,500,000	24.2%	62,000	63.9%	4,025,000	27.2%	71,765	69.4%
<b>Total</b>	<b>14,448,017</b>	<b>100.0%</b>	<b>\$ 96,979</b>	<b>100.0%</b>	<b>14,798,367</b>	<b>100.0%</b>	<b>\$ 103,499</b>	<b>100.0%</b>

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(1) The units acquired by our general partner and its affiliates consist of 5,014,222 common units, 5,919,346 subordinated units and the 0.1% general partner interest, which has a dilutive effect equivalent to approximately 14,449 units.

(2) Our general partner and its affiliates contributed to us (i) the net assets of NGL Supply, which were recorded at historical cost of \$1.5 million in accordance with GAAP (ii) the net assets of Hicksgas, which were recorded at fair value of \$39.4 million, as determined by management and (iii) \$11.0 million in cash. See Note 1 to the Notes to Unaudited Pro Forma Financial Statements.

(3) Gives effect to (i) the redemption of approximately 175,000 common units from the NGL Energy LP Investor Group and (ii) the proportionate increase of the 0.1% general partner interest, which has an additional dilutive effect equivalent to approximately 350 units.

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**OUR CASH DISTRIBUTION POLICY AND RESTRICTIONS ON DISTRIBUTIONS**

*You should read the following discussion of our cash distribution policy in conjunction with the factors and assumptions included in this section. In addition, please read "Forward-Looking Statements" and "Risk Factors" for information regarding statements that do not relate strictly to historical or current facts and certain risks inherent in our business. For additional information regarding our historical and pro forma operating results, you should refer to our historical financial statements and pro forma financial statements and the related notes included elsewhere in this prospectus.*

**General**

***Rationale for Our Cash Distribution Policy***

Our partnership agreement requires us to distribute all of our available cash quarterly. Our cash distribution policy reflects a judgment that our unitholders will be better served by our distributing rather than retaining our available cash. Generally, our available cash is our (i) cash on hand at the end of a quarter after the payment of our expenses and the establishment of cash reserves and (ii) if our general partner so determines, cash on hand on the date of determination of available cash for a quarter. Because we are not subject to an entity-level federal income tax, we have more cash to distribute to our unitholders than would be the case were we subject to federal income tax.

***Limitations on Cash Distributions and Our Ability to Change Our Cash Distribution Policy***

There is no guarantee that our unitholders will receive quarterly distributions from us. We do not have a legal obligation to pay the minimum quarterly distribution or any other distribution except as provided in our partnership agreement. Our cash distribution policy may be changed at any time and is subject to certain restrictions, including the following:

Our cash distribution policy will be subject to restrictions on distributions under our revolving credit facility and may be subject to similar restrictions in other debt agreements entered into in the future. After the completion of this offering, we are permitted to make distributions to our unitholders under our revolving credit facility so long as no default or event of default exists both immediately before and after giving effect to the declaration and payment of the distribution and the distribution does not exceed available cash for such quarterly period. Should we be unable to satisfy these restrictions, we would be prohibited from making cash distributions to you notwithstanding our stated cash distribution policy. Please read "Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity, Sources of Capital and Capital Resource Activities."

Our general partner will have the authority to establish reserves for the prudent conduct of our business and for future cash distributions to our unitholders, and the establishment or increase of those reserves could result in a reduction in cash distributions to you from the levels we currently anticipate pursuant to our stated cash distribution policy. Any decision to establish cash reserves made by our general partner in good faith will be binding on our unitholders.

Although our partnership agreement requires us to distribute all of our available cash, our partnership agreement, including the provisions requiring us to make cash distributions contained therein, may be amended. Our partnership agreement generally may not be amended during the subordination period without the approval of our public common unitholders other than in certain limited circumstances where no unitholder approval is required. However, after the subordination period has ended, our partnership agreement may be amended with the consent of our general partner and the approval of a majority of the outstanding common units (including common units held by our general partner and its affiliates). At the completion of this offering, the NGL Energy Investor Group will own our general partner and will own an aggregate of approximately 75.8% of our outstanding common and subordinated units (or 72.8% of our outstanding common and subordinated units if the underwriters exercise their option to purchase additional common units from us in full). Please read "The Partnership Agreement – Amendment of the Partnership Agreement."

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Even if our cash distribution policy is not modified or revoked, the amount of distributions we pay under our cash distribution policy and the decision to make any distribution is determined by our general partner, taking into consideration the terms of our partnership agreement.

Under Section 17-607 of the Delaware LP Act, we may not make a distribution if the distribution would cause our liabilities to exceed the fair value of our assets.

We may lack sufficient cash to pay distributions to our unitholders due to cash flow shortfalls attributable to a number of operational, commercial or other factors as well as increases in our operating or general and administrative expense, principal and interest payments on our debt, tax expenses, working capital requirements and anticipated cash needs. Our cash available for distribution to unitholders is directly impacted by our cash expenses necessary to run our business and will be reduced dollar-for-dollar to the extent such uses of cash increase. Prior to making distributions, we will reimburse our general partner for general and administrative expenses it incurs for services that it provides to us, including compensation, travel and entertainment expenses for the non-employee directors serving on the board of directors of our general partner and the cost of director and officer liability insurance. We estimate that we will reimburse our general partner for approximately \$250,000 in expenses annually. Please read "Provisions of Our Partnership Agreement Relating to Cash Distributions Distributions of Available Cash."

If and to the extent our cash available for distribution materially declines, we may elect to reduce our quarterly distribution in order to service or repay our debt or fund expansion capital expenditures.

If we make distributions out of capital surplus, as opposed to operating surplus, any such distributions would constitute a return of capital and would result in a reduction in the minimum quarterly distribution and the target distribution levels. Please read "Provisions of Our Partnership Agreement Relating to Cash Distributions Distributions from Capital Surplus." We do not anticipate that we will make any distributions from capital surplus.

Our ability to make distributions to our unitholders depends on the performance of our subsidiaries and their ability to distribute cash to us. The ability of our subsidiaries to make distributions to us may be restricted by, among other things, the provisions of future indebtedness, applicable state partnership and limited liability company laws and other laws and regulations.

***Our Ability to Grow is Dependent on Our Ability to Access External Expansion Capital***

Our partnership agreement requires us to distribute all of our available cash to our unitholders on a quarterly basis. As a result, we expect that we will rely primarily upon external financing sources, including commercial bank borrowings and the issuance of debt and equity securities as well as reserves that we have established, to fund any future acquisitions and expansion capital expenditures. To the extent we are unable to finance growth externally, our cash distribution policy will significantly impair our ability to grow. In addition, because we distribute all of our available cash, our growth may not be as fast as that of businesses that reinvest their available cash to expand ongoing operations. Our revolving credit facility will also restrict our ability to incur additional debt, including through the issuance of debt securities. To the extent we issue additional units in connection with any acquisitions or other expansion capital expenditures, the payment of distributions on those additional units may increase the risk that we will be unable to maintain or increase our per unit distribution level. There are no limitations in our partnership agreement or our revolving credit facility on our ability to issue additional units, including units ranking senior to the common units. The incurrence of additional commercial borrowings or other debt to finance our growth strategy would result in increased interest expense, which in turn may impact the available cash that we have to distribute to our unitholders.

Table of Contents**Our Minimum Quarterly Distribution**

Upon completion of this offering, our partnership agreement will provide for a minimum quarterly distribution of \$0.3375 per unit per complete quarter, or \$1.35 per unit on an annualized basis. Quarterly distributions, if any, will be paid within 45 days after the end of each quarter beginning with the quarter ending June 30, 2011. We will adjust the quarterly distribution for the period from the date of the completion of this offering through June 30, 2011 based on the actual number of days in that period. We must generate approximately \$19.5 million (or an average of \$4.9 million per quarter) of available cash to pay the minimum quarterly distribution for four quarters on all of our common units, subordinated units and general partner interest that will be outstanding immediately after the completion of this offering. If the underwriters exercise their option to purchase additional common units from us in full, then 350,350 net additional common and notional general partner units will be outstanding and we must generate approximately \$20.0 million (or an average of \$5.0 million per quarter) of available cash to pay the minimum quarterly distribution for four quarters on all of our common units, subordinated units and general partner interest. Our ability to make cash distributions equal to the minimum quarterly distribution will be subject to the factors described above under the caption "General Limitations on Cash Distributions and Our Ability to Change Our Distribution Policy."

The table below sets forth the assumed number of outstanding common units (assuming no exercise and full exercise of the underwriters' option to purchase additional common units from us and the related redemption of 175,000 common units held by the NGL Energy LP Investor Group) and subordinated units upon the completion of this offering and the number of unit equivalents represented by the 0.1% general partner interest and the aggregate distribution amounts payable on such units during the year following the completion of this offering at our minimum quarterly distribution rate of \$0.3375 per unit per quarter (\$1.35 per unit on an annualized basis).

No Exercise of Underwriters' Option to Purchase Additional Common Units From Us					Full Exercise of Underwriters' Option to Purchase Additional Common Units From Us			
		Number of Units	Distributions				Distributions	
			One Quarter	Annualized			One Quarter	Annualized
		(in thousands)				(in thousands)		
Common units public	3,500,000	\$ 1,181.3	\$ 4,725.0	4,025,000	\$ 1,358.4	\$ 5,433.6		
Common units NGL Energy LP Investor Group	5,014,222	1,692.3	6,769.2	4,839,222	1,633.2	6,532.8		
Subordinated units NGL Energy LP Investor Group	5,919,346	1,997.8	7,991.2	5,919,346	1,997.8	7,991.2		
General partner interest	14,449	4.9	19.6	14,799	5.0	20.0		
<b>Total</b>	14,448,017	\$ 4,876.3	\$ 19,505.0	14,798,367	\$ 4,994.4	\$ 19,977.6		

Initially, our general partner will be entitled to 0.1% of all distributions that we make prior to our liquidation. In the future, our general partner's initial 0.1% general partner interest in these distributions may be reduced if we issue additional units and our general partner does not contribute a proportionate amount of capital to us to maintain its initial 0.1% general partner interest. Our general partner will also hold the incentive distribution rights, which entitle the holder to increasing percentages, up to a maximum of 48.0%, of the cash we distribute in excess of \$0.388125 per unit per quarter.

During the subordination period, before we make any quarterly distributions to our subordinated unitholders, our common unitholders are entitled to receive payment of the full minimum quarterly distribution plus any arrearages in distributions of the minimum quarterly distribution from prior quarters. Please read the "Provisions of our Partnership Agreement Relating to Cash Distributions Subordination Period." We cannot guarantee, however, that we will pay the minimum quarterly distribution on the common units in any quarter.





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We do not have a legal obligation to pay distributions at our minimum quarterly distribution rate or at any other rate except as provided in our partnership agreement. Our partnership agreement requires that we distribute all of our available cash quarterly. Under our partnership agreement, available cash is generally defined to mean, for each quarter, cash generated from our business in excess of the amount of cash reserves established by our general partner to provide for the conduct of our business, to comply with applicable law, any of our debt instruments or other agreements or to provide for future distributions to our unitholders and general partner for any one or more of the next four quarters. Our available cash may also include, if our general partner so determines, all or any portion of the cash on hand on the date of determination of available cash for the quarter resulting from working capital borrowings made after the end of the quarter.

If we do not pay the minimum quarterly distribution on our common units, our common unitholders will not be entitled to receive such payments in the future except during the subordination period. To the extent we have available cash in any future quarter during the subordination period in excess of the amount necessary to pay the minimum quarterly distribution to holders of our common units, we will use this excess available cash to pay any distribution arrearages related to prior quarters before any cash distribution is made to holders of subordinated units. Our subordinated units will not accrue arrearages for unpaid quarterly distributions or quarterly distributions less than the minimum quarterly distribution. Please read "Provisions of our Partnership Agreement Relating to Cash Distributions Subordination Period."

Although holders of our common units may pursue judicial action to enforce provisions of our partnership agreement, including those related to requirements to make cash distributions as described above, our partnership agreement provides that any determination made by our general partner in its capacity as our general partner must be made in good faith and that any such determination will not be subject to any other standard imposed by the Delaware LP Act or any other law, rule or regulation or at equity. Our partnership agreement provides that, in order for a determination by our general partner to be made in "good faith," our general partner must believe that the determination is in, or not opposed to, our best interest. Please read "Conflicts of Interest and Fiduciary Duties."

Our cash distribution policy, as expressed in our partnership agreement, may not be modified or repealed without amending our partnership agreement. However, the actual amount of our cash distributions for any quarter is subject to fluctuations based on the amount of cash we generate from our business and the amount of reserves our general partner establishes in accordance with our partnership agreement as described above.

We will pay our distributions on or about the 15th of each of February, May, August and November to holders of record on or about the 1st of each such month. If the distribution date does not fall on a business day, we will make the distribution on the business day immediately preceding the indicated distribution date.

**Historical Pro Forma and Forecasted Results of Operations and Cash Available for Distribution**

In the sections that follow, we present in detail the basis for our belief that we will be able to pay the minimum quarterly distribution on all of our common units and subordinated units and make the corresponding distribution on our general partner's 0.1% general partner interest for the twelve months ending March 31, 2012. In those sections, we present two tables, consisting of:

"Partnership Unaudited Pro Forma Cash Available for Distribution," in which we present the amount of cash we would have had available for distribution on a pro forma basis for the fiscal year ended March 31, 2010 and the twelve months ended December 31, 2010, after giving effect to:

the formation transactions;

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the split of each common unit held by the members of the NGL Energy LP Investor Group into 3.7219 common units;

the conversion of 5,919,346 common units held by the members of the NGL Energy LP Investor Group on a pro rata basis into 5,919,346 subordinated units;

the application of the net proceeds from this offering as described in "Use of Proceeds;"

the contribution of approximately \$70,000 by our general partner to maintain its 0.1% general partner interest, and

the entry into our revolving credit facility,

all as further described in our unaudited pro forma condensed consolidated financial statements included elsewhere in this prospectus.

"Partnership Statement of Forecasted Estimated Adjusted EBITDA," in which we demonstrate our ability to generate the minimum estimated Adjusted EBITDA necessary for us to pay the minimum quarterly distribution on all units for the twelve months ending March 31, 2012.

**Unaudited Pro Forma Cash Available for Distribution for the Fiscal Year Ended March 31, 2010 and the Twelve Months Ended December 31, 2010**

If we had completed the transactions described above in "Historical Pro Forma and Forecasted Results of Operations and Cash Available for Distribution" on April 1, 2009 our unaudited pro forma cash available for distribution for the fiscal year ended March 31, 2010 would have been approximately \$11.0 million. This amount would have been sufficient to allow us to pay a cash distribution of approximately \$0.323 per unit per quarter (or \$1.29 per unit on an annualized basis), or approximately 95.7% of the minimum quarterly distribution, on all of our common units and no cash distribution on any of our subordinated units for the fiscal year ended March 31, 2010.

If we had completed the transactions described above in "Historical Pro Forma and Forecasted Results of Operations and Cash Available for Distribution" on January 1, 2010 our unaudited pro forma cash available for distribution for the twelve months ended December 31, 2010 would have been approximately \$9.1 million. This amount would have been sufficient to allow us to pay a cash distribution of approximately \$0.266 per unit per quarter (or \$1.06 per unit on an annualized basis), or approximately 78.9% of the minimum quarterly distribution, on all of our common units and no cash distribution on any of our subordinated units for the twelve months ended December 31, 2010.

We have included in our computation of unaudited pro forma cash available for distribution an estimate of the incremental general and administrative expenses that we expect we will incur as a publicly traded partnership in excess of our historical general and administrative expenses, including expenses associated with SEC reporting requirements, annual and quarterly reports to unitholders, tax return and Schedule K-1 preparation and distribution, independent auditor fees, investor relations activities, registrar and transfer agent fees, incremental director and officer liability insurance costs and director compensation. We estimate that these incremental general and administrative expenses initially will be approximately \$1.0 million per year.

We based the pro forma adjustments upon currently available information and specific estimates and assumptions. The pro forma amounts shown below do not purport to present our actual results of operations had the transactions described above actually been completed as of April 1, 2009 or January 1, 2010. Furthermore, cash available for distribution is a cash accounting concept, while our unaudited pro forma financial data have been prepared on an accrual basis. We computed the estimate of pro forma cash available for distribution in the manner described in the table below. As a result, the amount of pro forma cash available for distribution should only be viewed as a general indication of the amount of cash available for distribution that we might have generated had we been formed and

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completed the transactions described above in " Historical Pro Forma and Forecasted Results of Operations and Cash Available for Distribution" in earlier periods.

The following table illustrates, on a pro forma basis for the fiscal year ended March 31, 2010 and the twelve months ended December 31, 2010, our estimated cash available for distribution, assuming that the transactions described above in " Historical Pro Forma and Forecasted Results of Operations and Cash Available for Distribution" had been completed on April 1, 2009 and January 1, 2010, respectively. Please read the footnotes to the table for further information about the computation and the pro forma adjustments.

### Partnership Unaudited Pro Forma Cash Available for Distribution

	<b>Pro Forma</b>	
	<b>Fiscal Year Ended March 31, 2010</b>	<b>Twelve Months Ended December 31, 2010</b>
	<b>(dollars in thousands, except per unit data)</b>	
<b>Pro Forma Net Income</b>	\$ 7,854	\$ 7,111
Add (deduct):		
Interest expense(1)	2,422	2,422
Depreciation and amortization	7,554	7,200
Unrealized (gain) loss on derivatives	(491)	(478)
(Gain) loss on sale of assets	11	8
<b>Adjusted EBITDA(2)</b>	\$ 17,350	\$ 16,263
Less:		
Cash interest paid(1)	(1,526)	(2,385)
Estimated incremental general and administrative expenses(3)	(1,000)	(1,000)
Maintenance capital expenditures	(3,804)	(3,786)
Expansion capital expenditures(5)	(3,113)	(18,054)
Plus:		
Borrowings to fund expansion expenditures(5)	3,113	18,054
<b>Unaudited pro forma cash available for distribution(4)</b>	\$ 11,020	\$ 9,092
<b>Pro Forma Cash Distributions:</b>		
<b>Annualized minimum quarterly distributions per unit</b>	\$ 1.35	\$ 1.35
Distributions to public common unitholders	\$ 4,725	\$ 4,725
Distributions to NGL Energy LP Investor Group common units	6,769	6,769
Distributions to NGL Energy LP Investor Group subordinated units	7,991	7,991
Distributions to our general partner	20	20
<b>Total distributions</b>	\$ 19,505	\$ 19,505
<b>Excess (Deficiency)</b>	\$ (8,485)	\$ (10,413)
Percent of minimum quarterly distribution payable to common unitholders	95.7%	78.9%
Percent of minimum quarterly distribution payable to subordinated unitholders	0%	0%

- (1) Pro forma interest expense represents the interest expense related to estimated borrowings from our revolving credit facility after giving effect to the formation transactions and the completion of this offering plus amortization of debt issuance costs. Cash interest paid excludes the effect of the



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amortization of debt issuance costs and includes interest related to the estimated amounts borrowed to fund the expansion capital expenditures. If interest rates were to change by 0.125%, cash interest expense and pro forma interest expense would change by approximately \$29,000.

- (2) Adjusted EBITDA is defined in "Summary Non-GAAP Financial Measures."
- (3) Reflects an adjustment to our Adjusted EBITDA for approximately \$1.0 million of estimated incremental annual administrative expenses we expect to incur as a result of being a publicly traded partnership.
- (4) Our revolving credit facility prohibits us from making distributions to our unitholders if (a) any default or event of default exists both immediately before and after giving effect to the declaration and payment of the distribution or (b) the distribution exceeds available cash for such quarterly period.
- (5) In the computation of the unaudited pro forma cash available for distribution, we have included those capital expenditures that we believe represent expansion capital expenditures. Historically, those capital expenditures have been funded, and will continue to be funded in the future, with advances from our acquisition facility. Expansion capital expenditures involve acquisitions of assets and businesses that are believed to be accretive to our cash flow both before and after interest payments required on the debt incurred to finance those acquisitions.

**Forecasted Estimated Adjusted EBITDA for Twelve Months Ending March 31, 2012**

To fund the aggregate minimum quarterly distribution on all units for the twelve months ending March 31, 2012 totaling \$19.5 million we will need to generate Adjusted EBITDA of at least \$23.1 million (assuming the underwriters do not exercise their option to purchase additional common units from us). Based on the assumptions described below under "Forecast Assumptions and Considerations," we believe we will generate the minimum estimated Adjusted EBITDA of \$23.1 million for the twelve months ending March 31, 2012. This minimum estimated Adjusted EBITDA should not be viewed as management's projection of the actual amount of Adjusted EBITDA that we will generate during the twelve months ending March 31, 2012. Furthermore, there is a risk that we will not generate the minimum estimated Adjusted EBITDA for such period. If we fail to generate the minimum estimated Adjusted EBITDA, we would not expect to be able to pay the minimum quarterly distribution on all of our units for the forecast period.

We have not historically made public projections as to future operations, earnings or other results. However, we have prepared the minimum estimated Adjusted EBITDA and related assumptions set forth below to substantiate our belief that we will have sufficient cash available to pay the minimum quarterly distribution to all our unitholders for each quarter in the twelve months ending March 31, 2012. This forecast is a forward-looking statement and should be read together with the historical financial statements and pro forma financial statements and the related notes included elsewhere in this prospectus and "Management's Discussion and Analysis of Financial Condition and Results of Operations." The accompanying prospective financial information was not prepared with a view toward complying with the published guidelines of the SEC or guidelines established by the American Institute of Certified Public Accountants with respect to prospective financial information, but, in the view of our management, was prepared on a reasonable basis, reflects the best currently available estimates and judgments, and presents, to the best of management's knowledge and belief, the assumptions on which we base our belief that we can generate the minimum estimated Adjusted EBITDA necessary for us to have sufficient cash available for distribution to pay the minimum quarterly distribution to all unitholders for each quarter in the twelve months ending March 31, 2012. However, this information is not fact and should not be relied upon as being necessarily indicative of future results, and you are cautioned not to place undue reliance on the prospective financial information.

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**Neither our independent auditors, nor any other independent accountants, have compiled, examined or performed any procedures with respect to the prospective financial information contained herein, nor have they expressed any opinion or any other form of assurance on such information or its achievability, and assume no responsibility for, and disclaim any association with, such prospective financial information. We do not intend to update or otherwise revise such information to reflect circumstances existing since its preparation or to reflect the occurrence of unanticipated events, even if any or all of the underlying assumptions are shown to be in error. Furthermore, we do not intend to update or revise the prospective financial information to reflect changes in general economic or industry conditions. Therefore, you are cautioned not to place undue reliance on this information.**

When considering our financial forecast, you should keep in mind the risk factors and other cautionary statements under "Risk Factors." Any of the risks discussed in this prospectus, to the extent they are realized, could cause our actual results of operations to vary significantly from those which would enable us to generate the minimum estimated Adjusted EBITDA.

We are providing the minimum estimated Adjusted EBITDA calculation to supplement our unaudited pro forma financial statements and historical consolidated financial statements in support of our belief that we will have sufficient cash available to pay the minimum quarterly distribution on all of our outstanding common and subordinated units for the twelve months ending March 31, 2012. Please read below under " Forecast Assumptions and Considerations" for further information as to the assumptions we have made for the financial forecast.

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	<b>Twelve Months Ending March 31, 2012 (in thousands)</b>
Revenues	\$ 883,688
Costs and Expenses:	
Cost of sales	825,888
Operating and administrative costs(1)	34,200
Depreciation and amortization expense	7,110
Total costs and expenses	867,198
Operating income	16,490
Interest expense	2,886
Net income	13,604
Plus:	
Interest expense	2,886
Depreciation and amortization expense	7,110
<b>Estimated Adjusted EBITDA(2)</b>	<b>23,600</b>
Adjustments to reconcile Estimated Adjusted EBITDA to estimated cash available for distribution:	
Less:	
Cash interest paid	1,811
Maintenance capital expenditures	1,750
Expansion capital expenditures	8,000
Plus:	
Borrowings to fund expansion expenditures	8,000
<b>Estimated cash available for distribution(3)</b>	<b>\$ 20,039</b>
Distributions to public common unitholders	\$ 4,725
Distributions to NGL Energy LP Investor Group common units	6,769
Distributions to NGL Energy LP Investor Group subordinated units	7,991
Distributions to our general partner	20
Total annualized minimum quarterly distributions	\$ 19,505
Excess of cash available for distribution over aggregate annualized minimum quarterly distributions(4)(5)	\$ 534
Calculation of minimum estimated Adjusted EBITDA necessary to pay aggregate annualized minimum quarterly distributions:	
Estimated Adjusted EBITDA	\$ 23,600
Excess of cash available for distribution over aggregate annualized minimum quarterly distributions	534
Minimum estimated Adjusted EBITDA necessary to pay aggregate annualized minimum quarterly distributions	\$ 23,066

- (1) Includes approximately \$1.0 million of estimated incremental annual administrative expenses that we expect to incur as a result of being a publicly traded partnership.

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(2)

Adjusted EBITDA is defined in "Summary Non-GAAP Financial Measures."

(3)

In the computation of the estimated cash available for distribution, we have included an estimate of those capital expenditures that we believe represent expansion capital expenditures. Historically,

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those capital expenditures have been funded, and will continue to be funded in the future, with advances from our acquisition facility. Expansion capital expenditures involve acquisitions of assets and businesses that are believed to be accretive to our cash flow both before and after interest payments required on the debt incurred to finance those acquisitions. For this presentation, we have not estimated any additional Adjusted EBITDA we may realize from these acquisitions. We have included additional interest expense of approximately \$0.3 million related to the borrowings to fund the capital expenditures.

- (4) Assuming the underwriters exercise their option to purchase additional common units in full, we intend to use the net proceeds as follows: (i) the net proceeds from the issuance and sale of any of the first 350,000 common units will be used with the other net proceeds of this offering as described in "Use of Proceeds" after deducting underwriting discounts and commissions and a structuring fee and (ii) the net proceeds from the issuance and sale of any of the remaining 175,000 common units will be used to redeem from the NGL Energy LP Investor Group on a pro rata basis a number of common units equal to the number of common units issued upon exercise of that portion of the option at a price per common unit equal to the proceeds per common unit before expenses but after deducting underwriting discounts and commissions and a structuring fee. Accordingly, we estimate that our estimated cash available for distribution for such period would increase to \$20.3 million as a result of a decrease in interest expense relating to the use of a portion of the additional proceeds to pay additional indebtedness under our credit facility. In such case, our total annualized minimum quarterly distributions would increase to approximately \$20.0 million and the excess of cash available for distribution over aggregate annualized minimum quarterly distributions would equal \$0.3 million.
- (5) Excludes a distribution of \$3.8 million to be paid to the NGL Energy LP Investor Group in May 2011.

**Forecast Assumptions and Considerations**

Set forth below are the material assumptions that we have made in order to demonstrate our ability to generate the minimum estimated Adjusted EBITDA for the forecast period.

***General Considerations***

Our forecast assumes that our margins during the forecast period will be consistent with our historical margins and our margins generated during the fiscal year ended March 31, 2010 and the twelve months ended December 31, 2010. Our strategy includes maintaining consistent margins by passing cost increases on to our retail propane and wholesale marketing and supply customers and by generating fee-based revenues from our midstream customers. We expect to use the same strategy to maintain our margins in the forecast period.

***Revenue***

We estimate that we will generate revenue of \$884 million for the forecast period, as compared to pro forma revenues of \$810 million and \$1,000 million for the fiscal year ended March 31, 2010 and the twelve months ended December 31, 2010, respectively. Our revenues for the twelve months ended December 31, 2010 were higher than they were for the fiscal year ended March 31, 2010 due to higher propane prices, although the actual volumes sold remained relatively consistent over both time periods.

For purposes of our forecast, we have assumed that we will have volumes comparable to the twelve months ended December 31, 2010 since it is the most recent historical period and also because those volumes are consistent with the volumes sold during the fiscal year ended March 31, 2010. We have also assumed that propane prices for the forecast period will be comparable to propane prices for the quarter ended March 31, 2011. To the extent that propane prices fluctuate and we are able to maintain margins consistent with our historical margins, we would expect any related changes in revenues to be offset by

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related changes in cost of sales, thereby minimizing the impact that price fluctuations may have on our cash available for distribution.

***Costs and Expenses***

*Cost of sales.* We estimate that we will incur cost of sales of \$826 million for the forecast period, as compared to pro forma costs of sales of \$752 million and \$941 million for the fiscal year ended March 31, 2010 and the twelve months ended December 31, 2010, respectively. Due to higher propane prices during the twelve months ended December 31, 2010, our costs of sales were higher than they were for the fiscal year ended March 30, 2010. For purposes of our forecast, we have assumed that costs of sales during the forecast period will be similar to costs of sales for the quarter ended March 31, 2011.

*Operating and administrative costs.* We estimate that we will incur operating and administrative costs of \$34 million for the forecast period, as compared to pro forma operating and administrative costs of \$41 million and \$44 million for the fiscal year ended March 31, 2010 and the twelve months ended December 31, 2010, respectively. For purposes of our forecast, we have used our operating and administrative costs for the fiscal year ended March 31, 2010 as a baseline estimate instead of the twelve months ended December 31, 2010 that includes transaction costs we incurred in connection with our formation transactions. We have assumed that the operating and administrative costs for the forecast period will be less than for the fiscal year ended March 31, 2010 because:

operating expenses in that period included \$4 million in discretionary executive cash bonuses, which we do not expect to pay unless and to the extent we meet and exceed our forecasted estimated Adjusted EBITDA, in which event the payment of bonuses, if any, would be offset by increased Adjusted EBITDA; and

as a larger company, we anticipate savings of approximately \$2 million through the procurement of more cost effective business insurance and health insurance and the elimination or consolidation of certain duplicative expenses, including payroll and 401(k) plan administration.

Our operating and administrative costs will primarily consist of direct expenses incurred by us, including approximately \$1.0 million of estimated incremental annual administrative expenses we expect to incur as a result of becoming a publicly traded partnership. Expenses related to being a publicly-traded partnership include expenses associated with annual and quarterly reporting; tax return and Schedule K-1 preparation and distribution expenses; Sarbanes-Oxley compliance expenses; expenses associated with listing on the NYSE; independent auditor fees; legal fees; investor relations expenses; registrar and transfer agent fees; director and officer liability insurance costs and director compensation.

*Depreciation and amortization expense.* We estimate that depreciation and amortization expense for the forecast period will be \$7.1 million as compared to pro forma depreciation and amortization expense of \$7.5 million and \$7.2 million for the fiscal year ended March 31, 2010 and the twelve months ended December 31, 2010, respectively. Estimated depreciation and amortization expense reflects management's estimates, which are based on consistent average depreciable asset lives and depreciation methodologies and a preliminary estimate of the fair value of assets acquired from Hicksgas.

***Capital Expenditures***

We estimate that total capital expenditures for the forecast period will be \$9.8 million as compared to the pro forma capital expenditures of \$6.9 million and \$21.8 million for the fiscal year ended March 31, 2010 and the twelve months ended December 31, 2010, respectively. These prior period costs consist of \$3.8 million and \$3.8 million, respectively, of maintenance capital expenditures, primarily repairs to customer service centers and vehicle replacement costs for our service fleet and \$3.1 million and \$18.1 million, respectively, of expansion capital expenditures. The capital expenditures for the fiscal year ended March 31, 2010 were primarily related to the normal course of business. A large portion of the maintenance capital expenditures for the twelve months ended December 31, 2010 were due to the

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construction of a new customer service center and the acquisition of a water softening business in Indiana. Maintenance capital expenditures for the forecast period are expected to decline compared to both pro forma historical periods because we do not plan to build additional customer service centers during the forecast period.

Our forecast includes an estimate for expansion capital expenditures based on the average expansion capital expenditures during the previous three years and through December 31, 2010. We expect that any acquisitions we do make would be accretive. Although our revenues and expenses would increase as a result of such acquisitions, we expect that our Adjusted EBITDA would also increase. However, for this presentation, we have not included an estimate of any additional Adjusted EBITDA.

***Financing***

***Cash and Indebtedness.*** Upon the completion of this offering and after using the net proceeds of this offering to repay amounts outstanding under our revolving credit facility as described in "Use of Proceeds," we expect to have no outstanding indebtedness under our revolving credit facility, with available capacity of approximately \$50 million under our working capital facility and approximately \$130 million under our acquisition facility. We believe cash flow will be sufficient to fund our anticipated maintenance capital expenditures during the forecast period. The average borrowing under our working capital facility is expected to be approximately \$10 million for the forecast period.

Our forecast does not include any debt principal payments related to our working capital facility due to the nature of such arrangement. As of December 31, 2010, we had approximately \$18.5 million outstanding under our working capital facility. Pursuant to the terms of our revolving credit facility, once a year between March 31 and September 30, we are required to prepay the outstanding working capital revolving loans in order to reduce the total working capital borrowings to less than \$10.0 million for 30 consecutive days. After such 30-day period, we are able to borrow under the working capital facility based on our working capital position at that time.

Our forecast also does not include any debt principal payments related to our acquisition facility as no principal payments are anticipated until maturity in October 2014. However, as discussed further in "Management's Discussion and Analysis – Liquidity, Sources of Capital and Capital Resource Activities – Revolving Credit Facility," until such time as this offering is complete on or before October 14 of each year, we must repay outstanding principal amounts under our acquisition facility by at least \$7.5 million.

***Regulatory, Industry and Economic Factors***

Our forecast for the twelve months ending March 31, 2012 is based on the following significant assumptions related to regulatory, industry and economic factors:

There will not be any new federal, state or local regulation of the propane industry, or any new interpretation of existing regulations, that will be materially adverse to our business.

There will not be any major adverse change in the propane industry or in market, insurance or general economic conditions.

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**PROVISIONS OF OUR PARTNERSHIP AGREEMENT RELATING TO CASH DISTRIBUTIONS**

Set forth below is a summary of the significant provisions of our partnership agreement that relate to cash distributions.

**Distributions of Available Cash**

*General.* Our partnership agreement requires that, within 45 days after the end of each quarter, beginning with the quarter ending June 30, 2011, we distribute all of our available cash to unitholders of record on the applicable record date. We will adjust the minimum quarterly distribution for the period from the completion of this offering through June 30, 2011 based on the actual number of days in that period. Prior to the completion of this offering, we will distribute approximately \$3.85 million in cash to the members of the NGL Energy LP Investor Group for taxable income allocated to our existing limited partners.

*Definition of Available Cash.* Available cash, for any quarter, consists of all cash on hand at the end of that quarter:

less, the amount of cash reserves established by our general partner at the date of determination of available cash for the quarter to:

provide for the proper conduct of our business;

comply with applicable law, any of our debt instruments or other agreements; and

provide funds for distributions to our unitholders and to our general partner for any one or more of the next four quarters (unless our general partner determines that the establishment of cash reserves for such purpose will prevent us from distributing the minimum quarterly distribution on all common units and any cumulative arrearages for the next four quarters);

plus, if our general partner so determines, all or a portion of cash on hand on the date of determination of available cash for the quarter.

The purpose and effect of the last bullet point above is to allow our general partner, if it so decides, to use cash on hand after the end of the quarter but on or before the date of determination of available cash for that quarter to pay distributions to unitholders.

*Intent to Distribute the Minimum Quarterly Distribution.* We intend to distribute to the holders of common and subordinated units on a quarterly basis at least the minimum quarterly distribution of \$0.3375 per unit, or \$1.35 on an annualized basis, to the extent we have sufficient cash from our operations after establishment of cash reserves and payment of fees and expenses, including payments to our general partner and its affiliates. However, there is no guarantee that we will pay the minimum quarterly distribution or any amount on our units in any quarter. Even if our cash distribution policy is not modified or revoked, the amount of distributions paid under our policy and the decision to make any distribution is determined by our general partner, taking into consideration the terms of our partnership agreement.

*General Partner Interest and Incentive Distribution Rights.* Initially, our general partner will be entitled to 0.1% of all quarterly distributions that we make prior to our liquidation. Our general partner has the right, but not the obligation, to contribute a proportionate amount of capital to us to maintain its current general partner interest. Our general partner's initial 0.1% interest in our distributions may be reduced if we issue additional limited partner interests in the future (other than the issuance of common units upon the subdivision of common units held by the members of the NGL Energy LP Investor Group, the issuance of subordinated units upon conversion of common units held by the members of the NGL Energy LP Investor Group on a pro rata basis into subordinated units or the issuance of

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common units upon a reset of the incentive distribution rights) and our general partner does not contribute a proportionate amount of capital to us to maintain its 0.1% general partner interest.

Our general partner also currently holds incentive distribution rights, which represent a potentially material variable interest in our distributions. Incentive distribution rights entitle our general partner to receive increasing percentages, up to a maximum of 48.1%, of the cash we distribute from operating surplus (as defined below) in excess of \$0.388125 per unit per quarter. The maximum distribution of 48.1% includes distributions paid to our general partner on its 0.1% general partner interest and assumes that our general partner maintains its general partner interest at 0.1%. The maximum distribution of 48.1% does not include any distributions that our general partner may receive on common units or subordinated units that it owns. Please read "General Partner Interest and Incentive Distribution Rights" for additional information.

**Operating Surplus and Capital Surplus**

*General.* All cash distributed will be characterized as either being paid from "operating surplus" or "capital surplus." Our partnership agreement requires that we distribute available cash from operating surplus differently than available cash from capital surplus.

*Operating Surplus.* Operating surplus for any period consists of:

\$20.0 million; plus

all of our cash receipts after the completion of this offering, excluding cash from interim capital transactions, which include the following:

borrowings, refinancing or refundings (including sales of debt securities) that are not working capital borrowings;

sales of equity interests;

sales or other dispositions of assets outside the ordinary course of business; and

capital contributions received;

provided that cash receipts from the termination of commodity hedges or interest rate hedges prior to their specified termination date shall be included in operating surplus in equal quarterly installments over the remaining scheduled life of such commodity hedge or interest rate hedge; plus

working capital borrowings made after the end of the period but on or before the date of determination of operating surplus for the period; plus

cash distributions paid on equity issued (including incremental distributions on incentive distribution rights), other than equity issued in this offering, to finance all or a portion of the construction, acquisition or improvement of a capital improvement or replacement of a capital asset (such as equipment or facilities) and paid in respect of the period beginning on the date that we enter into a binding obligation to commence the construction, acquisition or improvement of a capital improvement or replacement of a capital asset and ending on the earlier to occur of the date the capital improvement or replacement capital asset commences commercial service and the date that it is abandoned or disposed of; plus

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cash distributions paid on equity issued (including incremental distributions on incentive distribution rights) to pay the construction period interest on debt incurred, or to pay construction period distributions on equity issued, to finance the capital improvements or capital assets referred to above; less

all of our operating expenditures (as defined below) after the completion of this offering; less

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the amount of cash reserves established by our general partner to provide funds for future operating expenditures; less

all working capital borrowings not repaid within twelve months after having been incurred or repaid within such twelve-month period with the proceeds from additional working capital borrowings; less

any loss realized in disposition of an investment capital expenditure.

Under our partnership agreement, working capital borrowings are borrowings that are made under a credit facility, commercial paper facility or similar financing arrangement, and in all cases are used solely for working capital purposes or to pay distributions to partners and with the intent of the borrower to repay such borrowings within twelve months from sources other than additional working capital borrowings.

As described above, operating surplus does not reflect actual cash on hand that is available for distribution to our unitholders and is not limited to cash generated by our operations. For example, it includes a basket of an amount equal to the product of four times the minimum quarterly distribution and the number of common units outstanding on the closing date of this offering that will enable us, if we choose, to distribute as operating surplus cash we receive in the future from non-operating sources such as asset sales, issuances of securities and long-term borrowings that would otherwise be distributed as capital surplus. In addition, the effect of including, as described above, certain cash distributions on equity interests in operating surplus will be to increase operating surplus by the amount of any such cash distributions and to permit the distribution as operating surplus of additional amounts of cash that we receive from non-operating sources.

The proceeds of working capital borrowings increase operating surplus and repayments of working capital borrowings are generally operating expenditures, as described below, and thus reduce operating surplus when made. However, if a working capital borrowing is not repaid during the twelve-month period following the borrowing, it will be deemed repaid at the end of such period, thus decreasing operating surplus at such time. When such working capital borrowing is in fact repaid, it will be excluded from operating expenditures because operating surplus will have been previously reduced by the deemed repayment.

We define operating expenditures as all of our cash expenditures, including, but not limited to, taxes, reimbursement of expenses to our general partner and its affiliates, payments made in the ordinary course of business under interest rate hedge agreements or commodity hedge contracts (provided that (i) with respect to amounts paid in connection with the initial purchase of an interest rate hedge contract or a commodity hedge contract, such amounts will be amortized over the life of the applicable interest rate hedge contract or commodity hedge contract and (ii) payments made in connection with the termination of any interest rate hedge contract or commodity hedge contract prior to the expiration of its stipulated settlement or termination date will be included in operating expenditures in equal quarterly installments over the remaining scheduled life of such interest rate hedge contract or commodity hedge contract), officer and other employee compensation, repayment of working capital borrowings, debt service payments and maintenance capital expenditures (as discussed in further detail below), provided that operating expenditures will not include:

repayment of working capital borrowings deducted from operating surplus pursuant to the next to the last bullet point of the definition of operating surplus above when such repayment actually occurs;

payments (including prepayments and prepayment penalties) of principal of and premium on indebtedness, other than working capital borrowings;

expansion capital expenditures;

investment capital expenditures;

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payment of transaction expenses (including taxes) relating to interim capital transactions;

distributions to our partners (including distributions in respect of our incentive distribution rights); or

repurchases of partnership interests except to fund obligations under employee benefit plans.

*Capital Surplus.* We define capital surplus as any distribution of available cash in excess of our cumulative operating surplus. A distribution from capital surplus would potentially be generated by a distribution of cash from:

borrowings other than working capital borrowings;

issuances of our equity and debt securities; and

sales or other dispositions of assets for cash, other than inventory, accounts receivable and other assets sold in the ordinary course of business or as part of normal retirement or replacement of assets.

*Characterization of Cash Distributions.* Our partnership agreement requires that we treat all available cash distributed as coming from operating surplus until the sum of all available cash distributed since the completion of this offering equals the operating surplus from the completion of this offering through the end of the quarter immediately preceding that distribution. Our partnership agreement requires that we treat any amount distributed in excess of operating surplus, regardless of its source, as capital surplus. We do not anticipate that we will make any distributions from capital surplus.

**Capital Expenditures**

Maintenance capital expenditures are cash expenditures (including expenditures for the addition or improvement to, or the replacement of, our capital assets or for the acquisition of existing, or the construction or development of new, capital assets) made to maintain, including over the long term, our operating capacity or operating income. Maintenance capital expenditures primarily include expenditures for the repair and replacement of propane delivery trucks and service vehicles. Our partnership agreement provides that maintenance capital expenditures will also include interest (and related fees) on debt incurred and distributions on equity issued (including incremental distributions on incentive distribution rights) to finance all or any portion of the construction or development of a replacement asset that is paid in respect of the period that begins when we enter into a binding obligation to commence constructing or developing a replacement asset and ending on the earlier to occur of the date that any such replacement asset commences commercial service and the date that it is abandoned or disposed of.

Expansion capital expenditures are cash expenditures incurred for acquisitions or capital improvements and do not include maintenance capital expenditures or investment capital expenditures. Expansion capital expenditures are those capital expenditures that we expect will increase our operating capacity or operating income over the long term. Examples of expansion capital expenditures include the acquisition of retail propane operations, propane distribution assets, including propane terminals, and natural gas midstream businesses, including natural gas transportation pipelines and gathering and processing assets, to the extent such capital expenditures are expected to expand our long-term operating capacity or operating income. Our partnership agreement provides that expansion capital expenditures will also include interest payments (and related fees) on debt incurred and distributions on equity issued (including incremental incentive distribution rights in respect of newly issued equity) to finance all or any portion of the construction of a capital improvement in respect of the period that commences when we enter into a binding obligation to commence construction of the capital improvement and ending on the earlier to occur of the date any such capital improvement commences commercial service and the date that it is abandoned or disposed of.

Investment capital expenditures are those capital expenditures that are neither maintenance capital expenditures nor expansion capital expenditures. Investment capital expenditures largely will consist of



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capital expenditures made for investment purposes. Examples of investment capital expenditures include traditional capital expenditures for investment purposes, such as purchases of securities, as well as other capital expenditures that might be made in lieu of such traditional investment capital expenditures, such as the acquisition of a capital asset for investment purposes or development of facilities that are in excess of the maintenance of our existing operating capacity or operating income, but which are not expected to expand, for more than the short term, our operating capacity or operating income.

Neither investment capital expenditures nor expansion capital expenditures will be included in operating expenditures, and thus will not reduce operating surplus. Because expansion capital expenditures include interest payments (and related fees) on debt incurred to finance all or a portion of the construction, replacement or improvement of a capital asset in respect of the period that begins when we enter into a binding obligation to commence construction of the capital asset and ending on the earlier to occur of the date the capital asset commences commercial service or the date that it is abandoned or disposed of, such interest payments are also not subtracted from operating surplus. Losses on disposition of an investment capital expenditure will reduce operating surplus when realized and cash receipts from an investment capital expenditure will be treated as a cash receipt for purposes of calculating operating surplus only to the extent the cash receipt is a return on principal.

Capital expenditures that are made in part for maintenance capital purposes, investment capital purposes and/or expansion capital purposes will be allocated as maintenance capital expenditures, investment capital expenditures or expansion capital expenditure by our general partner.

**Subordination Period**

*General.* Our partnership agreement provides that, during the subordination period (which we describe below), our common units will have the right to receive distributions of available cash from operating surplus each quarter in an amount equal to \$0.3375 per common unit, which amount is defined in our partnership agreement as the minimum quarterly distribution, plus any arrearages in the payment of the minimum quarterly distribution on our common units from prior quarters, before any distributions of available cash from operating surplus may be made on the subordinated units. These units are deemed "subordinated" because for a period of time, referred to as the subordination period, our subordinated units will not be entitled to receive any distributions until our common units have received the minimum quarterly distribution plus any arrearages from prior quarters. Furthermore, no arrearages will be paid on our subordinated units. The practical effect of our subordinated units is to increase the likelihood that during the subordination period there will be available cash to be distributed on our common units.

*Subordination Period.* Except as described below, the subordination period will begin on the closing date of this offering and will extend until the first business day after the distribution to unitholders in respect of any quarter, beginning with the first quarter after the third anniversary of the closing date of this offering, that each of the following tests are met:

distributions of available cash from operating surplus on each of the outstanding common and subordinated units and the related distribution on the general partner interest equaled or exceeded the minimum quarterly distribution for each of the three consecutive, non-overlapping four-quarter periods immediately preceding that date;

the "adjusted operating surplus" (as defined below) generated during each of the three consecutive, non-overlapping four-quarter periods immediately preceding that date equaled or exceeded the sum of the minimum quarterly distributions on all of the outstanding common and subordinated units and the related distribution on the general partner interest, in each case on a fully diluted weighted average basis during those periods; and

there are no arrearages in payment of the minimum quarterly distribution on the common units.

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*Early Termination of Subordination Period.* Notwithstanding the foregoing, the subordination period will automatically terminate on the first business day after the distribution to unitholders in respect of any quarter, if each of the following has occurred:

distributions of available cash from operating surplus on each of the outstanding common and subordinated units and the related distribution on the general partner interest equaled or exceeded \$2.025 (150.0% of the annualized minimum quarterly distribution) for the four-quarter period immediately preceding that date; and

the "adjusted operating surplus" (as defined below) generated during the four-quarter period immediately preceding that date equaled or exceeded the sum of \$2.025 (150.0% of the annualized minimum quarterly distribution) on each of the outstanding common and subordinated units and the related distribution on the general partner interest and the incentive distribution rights, in each case on a fully diluted weighted average basis.

*Expiration Upon Removal of the General Partner.* In addition, if the unitholders remove our general partner other than for cause and no units held by our general partner and its affiliates are voted in favor of such removal:

the subordination period will end and the subordinated units held by any person will immediately and automatically convert into common units on a one-for-one basis;

all cumulative common unit arrearages on the common units will be extinguished; and

our general partner will have the right to convert its general partner interest and its incentive distribution rights into common units or to receive cash in exchange for those interests based on the fair market value of the interests at the time.

*Expiration of the Subordination Period.* When the subordination period ends, each outstanding subordinated unit will convert into one common unit and will then participate pro rata with the other common units in distributions of available cash.

*Adjusted Operating Surplus.* Adjusted operating surplus is intended to reflect the cash generated from operations during a particular period and therefore excludes net increases in working capital borrowings and net drawdowns of reserves of cash generated in prior periods. Adjusted operating surplus for any period consists of:

operating surplus generated with respect to that period (excluding any amounts attributable to the items described in the first bullet point under " Operating Surplus and Capital Surplus Operating Surplus" above); less

any net increase in working capital borrowings with respect to that period; less

any net decrease in cash reserves for operating expenditures with respect to that period not relating to an operating expenditure made with respect to that period; plus

any net decrease in working capital borrowings with respect to that period; plus

any net increase in cash reserves for operating expenditures with respect to that period required by any debt instrument for the repayment of principal, interest or premium; plus

any net decrease made in subsequent periods to cash reserves for operating expenditures initially established with respect to such period to the extent such decrease results in a reduction in adjusted operating surplus in subsequent periods pursuant to the third bullet point above.



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**Distributions of Available Cash From Operating Surplus During the Subordination Period**

Our partnership agreement requires that we make distributions of available cash from operating surplus for any quarter during the subordination period in the following manner:

*first*, 99.9% to the common unitholders, pro rata, and 0.1% to our general partner, until we distribute for each outstanding common unit an amount equal to the minimum quarterly distribution for that quarter;

*second*, 99.9% to the common unitholders, pro rata, and 0.1% to our general partner, until we distribute for each outstanding common unit an amount equal to any arrearages in payment of the minimum quarterly distribution on our common units for any prior quarters during the subordination period;

*third*, 99.9% to the subordinated unitholders, pro rata, and 0.1% to our general partner, until we distribute for each outstanding subordinated unit an amount equal to the minimum quarterly distribution for that quarter; and

*thereafter*, in the manner described in " General Partner Interest and Incentive Distribution Rights" below.

The preceding discussion assumes that our general partner maintains its 0.1% general partner interest and that we do not issue additional classes of equity interests.

**Distributions of Available Cash From Operating Surplus After the Subordination Period**

Our partnership agreement requires that we make distributions of available cash from operating surplus for any quarter after the subordination period in the following manner:

*first*, 99.9% to all unitholders, pro rata, and 0.1% to our general partner, until we distribute for each outstanding unit an amount equal to the minimum quarterly distribution for that quarter; and

*thereafter*, in the manner described in " General Partner Interest and Incentive Distribution Rights" below.

The preceding discussion assumes that our general partner maintains its 0.1% general partner interest and that we do not issue additional classes of equity interests.

**General Partner Interest and Incentive Distribution Rights**

Our partnership agreement provides that our general partner initially will be entitled to 0.1% of all distributions that we make prior to our liquidation. Our general partner has the right, but not the obligation, to contribute a proportionate amount of capital to us to maintain its 0.1% general partner interest if we issue additional units. Our general partner's 0.1% general partner interest, and the percentage of our cash distributions to which it is entitled from its general partner interest, will be proportionately reduced if we issue additional units in the future (other than the issuance of common units upon conversion of outstanding subordinated units or the issuance of common units upon a reset of the incentive distribution rights) and our general partner does not contribute a proportionate amount of capital to us in order to maintain its 0.1% general partner interest. Our partnership agreement does not require that the general partner fund its capital contribution with cash and our general partner may fund its capital contribution by the contribution to us of common units or other property.

Incentive distribution rights represent a potentially material variable interest in our distributions. The holder of the incentive distribution rights has the right to receive an increasing percentage (13.0%, 23.0% and 48.0%) of quarterly distributions of available cash from operating surplus after the minimum quarterly distribution and the target distribution levels have been achieved. Our general partner currently holds the

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incentive distribution rights, but may transfer these rights separately from its general partner interest, subject to restrictions in the partnership agreement that apply prior to the first day of the first quarter beginning after the tenth anniversary of the closing date of this offering unless the consent of a majority of our outstanding common units (excluding common units held by our general partner or its affiliates) is obtained first.

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The following discussion assumes that our general partner maintains its 0.1% general partner interest, that there are no arrearages on common units and that our general partner continues to own all of the incentive distribution rights.

If for any quarter:

we have distributed available cash from operating surplus to the common and subordinated unitholders in an amount equal to the minimum quarterly distribution; and

we have distributed available cash from operating surplus on outstanding common units in an amount necessary to eliminate any cumulative arrearages in payment of the minimum quarterly distribution to the common unitholders;

then, our partnership agreement requires that we distribute any additional available cash from operating surplus for that quarter among the unitholders and the general partner in the following manner:

*first*, 99.9% to all unitholders, pro rata, and 0.1% to our general partner, until each unitholder receives a total of \$0.388125 per unit for that quarter (the "first target distribution");

*second*, 86.9% to all unitholders, pro rata, and 13.1% to our general partner, until each unitholder receives a total of \$0.421875 per unit for that quarter (the "second target distribution");

*third*, 76.9% to all unitholders, pro rata, and 23.1% to our general partner, until each unitholder receives a total of \$0.50625 per unit for that quarter (the "third target distribution"); and

*thereafter*, 51.9% to all unitholders, pro rata, and 48.1% to our general partner.

### Percentage Allocations of Available Cash From Operating Surplus

The following table illustrates the percentage allocations of available cash from operating surplus between the unitholders and our general partner based on the specified target distribution levels. The amounts set forth under "Marginal Percentage Interest in Distributions" are the percentage interests of our general partner and the unitholders in any available cash from operating surplus we distribute up to and including the corresponding amount in the column "Total Quarterly Distribution per Unit." The percentage interests shown for our unitholders and our general partner for the minimum quarterly distribution are also applicable to quarterly distribution amounts that are less than the minimum quarterly distribution. The percentage interests set forth below for our general partner include its 0.1% general partner interest, assume our general partner has contributed any additional capital necessary to maintain its 0.1% general partner interest and has not transferred its incentive distribution rights and there are no arrearages on common units.

				Marginal Percentage Interest in Distributions		
Total Quarterly Distribution per Unit				Unitholders	General Partner	
Minimum quarterly distribution			\$0.3375	99.9%	0.1%	
First target distribution	above	\$0.3375	up to \$0.388125	99.9%	0.1%	
Second target distribution	above	\$0.388125	up to \$0.421875	86.9%	13.1%	
Third target distribution	above	\$0.421875	up to \$0.50625	76.9%	23.1%	
Thereafter	above	\$0.50625		51.9%	48.1%	

### General Partner's Right to Reset Incentive Distribution Levels

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Our general partner, as the initial holder of our incentive distribution rights, has the right under our partnership agreement to elect to relinquish the right to receive incentive distribution payments based on the initial target distribution levels and to reset, at higher levels, the minimum quarterly distribution amount and target distribution levels upon which the incentive distribution payments to our

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general partner would be set. If our general partner transfers all or a portion of our incentive distribution rights in the future, then the holder or holders of a majority of our incentive distribution rights will be entitled to exercise this right. The following discussion assumes that our general partner holds all of the incentive distribution rights at the time that a reset election is made. Our general partner's right to reset the minimum quarterly distribution amount and the target distribution levels upon which the incentive distributions payable to our general partner are based may be exercised, without approval of our unitholders or the conflicts committee, at any time when there are no subordinated units outstanding and we have made cash distributions to the holders of the incentive distribution rights at the highest level of incentive distribution for each of the prior four consecutive fiscal quarters. The reset minimum quarterly distribution amount and target distribution levels will be higher than the minimum quarterly distribution amount and the target distribution levels prior to the reset such there will be no incentive distributions paid under the reset target distribution levels until cash distributions per unit following this event increase as described below. We anticipate that our general partner would exercise this reset right in order to facilitate acquisitions or internal growth projects that would otherwise not be sufficiently accretive to cash distributions per common unit, taking into account the existing levels of incentive distribution payments being made to our general partner.

In connection with the resetting of the minimum quarterly distribution amount and the target distribution levels and the corresponding relinquishment by our general partner of incentive distribution payments based on the target distribution levels prior to the reset, our general partner will be entitled to receive a number of newly issued common units based on a predetermined formula described below that takes into account the "cash parity" value of the average cash distributions related to the incentive distribution rights received by our general partner for the two quarters prior to the reset event as compared to the average cash distributions per common unit during this period. Our general partner's general partner interest in us (currently 0.1%) will be maintained at the percentage interest immediately prior to the reset election.

The number of common units that our general partner would be entitled to receive from us in connection with a resetting of the minimum quarterly distribution amount and the target distribution levels then in effect would be equal to the quotient determined by dividing (x) the average aggregate amount of cash distributions received by our general partner in respect of its incentive distribution rights during the two consecutive fiscal quarters ended immediately prior to the date of such reset election by (y) the average of the amount of cash distributed per common unit during each of these two quarters.

Following a reset election, the minimum quarterly distribution amount will be reset to an amount equal to the average cash distribution amount per unit for the two fiscal quarters immediately preceding the reset election (which amount we refer to as the "reset minimum quarterly distribution") and the target distribution levels will be reset to be correspondingly higher such that we would distribute all of our available cash from operating surplus for each quarter thereafter as follows:

*first*, 99.9% to all unitholders, pro rata, and 0.1% to our general partner, until each unitholder receives an amount per unit equal to 115.0% of the reset minimum quarterly distribution for that quarter;

*second*, 86.9% to all unitholders, pro rata, and 13.1% to our general partner, until each unitholder receives an amount per unit equal to 125.0% of the reset minimum quarterly distribution for the quarter;

*third*, 76.9% to all unitholders, pro rata, and 23.1% to our general partner, until each unitholder receives an amount per unit equal to 150.0% of the reset minimum quarterly distribution for the quarter; and

*thereafter*, 51.9% to all unitholders, pro rata, and 48.1% to our general partner.



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The following table illustrates the percentage allocation of available cash from operating surplus between the unitholders and our general partner at various cash distribution levels (i) pursuant to the cash distribution provisions of our partnership agreement in effect at the completion of this offering, as well as (ii) following a hypothetical reset of the minimum quarterly distribution and target distribution levels based on the assumption that the average quarterly cash distribution amount per common unit during the two fiscal quarters immediately preceding the reset election was \$0.60.

				Marginal Percentage Interest in Distribution					
Quarterly Distribution per Unit Prior to Reset				Unitholders	General Partner	Quarterly Distribution per Unit After Reset			
Minimum quarterly distribution				\$0.3375	99.9%	0.1%			
First target distribution				\$0.3375	up to \$0.388125	99.9%	0.1%	above \$0.60	up to \$0.69(1)
Second target distribution				\$0.388125	up to \$0.421875	86.9%	13.1%	above \$0.69(1)	up to \$0.75(2)
Third target distribution				\$0.421875	up to \$0.50625	76.9%	23.1%	above \$0.75(2)	up to \$0.90(3)
Thereafter				\$0.50625		51.9%	48.1%	above \$0.90(3)	

- (1) This amount is 115.0% of the hypothetical reset minimum quarterly distribution.
- (2) This amount is 125.0% of the hypothetical reset minimum quarterly distribution.
- (3) This amount is 150.0% of the hypothetical reset minimum quarterly distribution.

The following table illustrates the total amount of available cash from operating surplus that would be distributed to the unitholders and our general partner, including in respect of incentive distribution rights, based on an average of the amounts distributed each quarter for the two quarters immediately prior to the reset. The table assumes that immediately prior to the reset there would be 14,433,568 common units outstanding, our general partner has maintained its 0.1% general partner interest, and the average distribution to each common unit would be \$0.60 for the two quarters prior to the reset.

				Cash Distributions to Common Unitholders		Cash Distributions to General Partner Prior to Reset			Total Distributions
Quarterly Distribution per Unit Prior to Reset				Prior to Reset	Units	0.1% General Partner Interest	Incentive Distribution Rights	Total	
Minimum quarterly distribution				\$0.3375	\$ 4,871,329	\$ 4,877	\$	4,877	\$ 4,876,206
First target distribution				\$0.3375	up to \$0.388125	730,699	731	731	731,430
Second target distribution				\$0.388125	up to \$0.421875	487,133	561	72,874	73,435
Third target distribution				\$0.421875	up to \$0.50625	1,217,832	1,584	364,241	365,825
Thereafter				\$0.50625		1,353,147	2,607	1,251,466	1,254,072
						\$ 8,660,140	\$ 10,360	\$ 1,688,581	\$ 1,698,940
									\$ 10,359,081

The following table illustrates the total amount of available cash from operating surplus that would be distributed to the unitholders and our general partner, including in respect of incentive distribution rights, with respect to the quarter in which the reset occurs. The table reflects

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that as a result of the reset there would be 17,247,869 common units outstanding, our general partner's 0.1% general partner interest has been maintained, and the average distribution to each common unit would be \$0.60. The number of common units to be issued to our general partner upon the reset was calculated by dividing (i) the average of the amounts received by our general partner in respect of its incentive distribution rights for the two quarters prior to the reset as shown in the table above, or \$1,688,581, by (ii) the

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average available cash distributed on each common unit for the two quarters prior to the reset as shown in the table above, or \$0.60.

				Cash Distributions to General Partner After Reset					
				Cash Distributions to Existing Common Unitholders After Reset	Common Units Issued in Connection With Reset	0.1% General Incentive Partner Distribution Interest Rights		Total	Total Distributions
Quarterly Distribution per Unit After Reset									
Minimum quarterly distribution				\$0.60	\$ 8,660,140	\$ 1,688,581	\$ 10,360	\$ 1,698,940	\$ 10,359,081
First target distribution up to				\$0.69					
Second target distribution above				\$0.69	up to	\$0.75			
Third target distribution above				\$0.75	up to	\$0.90			
Thereafter above				\$0.90					
				\$ 8,660,140	\$ 1,688,581	\$ 10,360	\$ 1,698,940	\$ 10,359,081	

Our general partner will be entitled to cause the minimum quarterly distribution amount and the target distribution levels to be reset on more than one occasion, provided that it may not make a reset election except at a time when it has received incentive distributions for the prior four consecutive fiscal quarters based on the highest level of incentive distributions that it is entitled to receive under our partnership agreement.

## Distributions From Capital Surplus

*How Distributions from Capital Surplus Will Be Made.* Our partnership agreement requires that we make distributions of available cash from capital surplus, if any, in the following manner:

*first*, 99.9% to all unitholders, pro rata, and 0.1% to our general partner, until we distribute for each common unit that was issued in this offering, an amount of available cash from capital surplus equal to the initial public offering price in this offering;

*second*, 99.9% to the common unitholders, pro rata, and 0.1% to our general partner, until we distribute for each common unit, an amount of available cash from capital surplus equal to any unpaid arrearages in payment of the minimum quarterly distribution on the outstanding common units; and

*thereafter*, as if they were from operating surplus.

The preceding paragraph assumes that our general partner maintains its 0.1% general partner interest and that we do not issue additional classes of equity interests.

*Effect of a Distribution from Capital Surplus.* Our partnership agreement treats a distribution of capital surplus as the repayment of the initial unit price from this initial public offering, which is a return of capital. The initial public offering price less any distributions of capital surplus per unit is referred to as the "unrecovered initial unit price." Each time a distribution of capital surplus is made, the minimum quarterly distribution and the target distribution levels will be reduced in the same proportion as the corresponding reduction in the unrecovered initial unit price. Because distributions of capital surplus will reduce the minimum quarterly distribution and target distribution levels after any of these distributions are made, it may be easier for our general partner to receive incentive distributions and for the subordinated units to convert into common units. However, any distribution of capital surplus before the unrecovered initial unit price is reduced to zero cannot be applied to the payment of the minimum quarterly distribution or any arrearages.

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Once we distribute capital surplus on a common unit issued in this offering in an amount equal to the initial unit price, we will reduce the minimum quarterly distribution and the target distribution levels to zero. We will then make all future distributions from operating surplus, with 51.9% being paid to the unitholders, pro rata, and 48.1% to our general partner. The percentage interests shown for our general

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partner include its 0.1% general partner interest and assume our general partner has not transferred the incentive distribution rights.

**Adjustment to the Minimum Quarterly Distribution and Target Distribution Levels**

In addition to adjusting the minimum quarterly distribution and target distribution levels to reflect a distribution of capital surplus, if we combine our units into fewer units or subdivide our units into a greater number of units, our partnership agreement specifies that the following items will be proportionately adjusted:

the minimum quarterly distribution;

the target distribution levels;

the unrecovered initial unit price as described below; and

the per unit amount of any outstanding arrearages in payment of the minimum quarterly distribution.

For example, if a two-for-one split of the units should occur, the minimum quarterly distribution, the target distribution levels and the unrecovered initial unit price would each be reduced to 50.0% of its initial level. If we combine our common units into a lesser number of units or subdivide our common units into a greater number of units, we will combine or subdivide our subordinated units using the same ratio applied to the common units. Our partnership agreement provides that we do not make any adjustment by reason of the issuance of additional units for cash or property.

In addition, if as a result of a change in law or interpretation thereof, we or any of our subsidiaries is treated as an association taxable as a corporation or is otherwise subject to additional taxation as an entity for U.S. federal, state, local or non-U.S. income or withholding tax purposes, our general partner may, in its sole discretion, reduce the minimum quarterly distribution and the target distribution levels for each quarter by multiplying the minimum quarterly distribution and each target distribution level by a fraction, the numerator of which is available cash for that quarter (after deducting our general partner's estimate of our additional aggregate liability for the quarter for such income and withholdings taxes payable by reason of such change in law or interpretation thereof) and the denominator of which is the sum of (i) available cash for that quarter, plus (ii) our general partner's estimate of our additional aggregate liability for the quarter for such income and withholding taxes payable by reason of such change in law or interpretation thereof. To the extent that the actual tax liability differs from the estimated tax liability for any quarter, the difference will be accounted for in distributions with respect to subsequent quarters.

**Distributions of Cash Upon Liquidation**

*General.* If we dissolve in accordance with our partnership agreement, we will sell or otherwise dispose of our assets in a process called liquidation. We will first apply the proceeds of liquidation to the payment of our creditors. We will distribute any remaining proceeds to the unitholders and our general partner, in accordance with their capital account balances, as adjusted to reflect any gain or loss upon the sale or other disposition of our assets in liquidation.

The allocations of gain and loss upon liquidation are intended, to the extent possible, to entitle the holders of units to the payment of the initial value of their units, which we refer to as the "initial unit price" for each unit. The initial unit price for a common unit will be the price paid by a hypothetical purchaser of a common unit issued in this offering. The allocations of gain and loss upon liquidation are also intended, to the extent possible, to entitle the holders of outstanding common units to a preference over the holders of outstanding subordinated units upon our liquidation, to the extent required to permit common unitholders to receive their unrecovered initial unit price plus the minimum quarterly distribution for the quarter during which liquidation occurs plus any unpaid arrearages in payment of the minimum quarterly distribution on our common units. However, there may not be sufficient gain upon our liquidation to enable the holders of common units to fully recover all of these



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amounts, even though there may be cash available for distribution to the holders of subordinated units. Any further net gain recognized upon liquidation will be allocated in a manner that takes into account the incentive distribution rights of our general partner.

*Manner of Adjustments for Gain.* The manner of the adjustment for gain is set forth in our partnership agreement. If our liquidation occurs before the end of the subordination period, we will allocate any gain to our partners in the following manner:

*first*, to our general partner and the holders of units who have negative balances in their capital accounts to the extent of and in proportion to those negative balances;

*second*, 99.9% to the common unitholders, pro rata, and 0.1% to our general partner, until the capital account for each common unit is equal to the sum of:

- (i) the unrecovered initial unit price;
- (ii) the amount of the minimum quarterly distribution for the quarter during which our liquidation occurs; and
- (iii) any unpaid arrearages in payment of the minimum quarterly distribution;

*third*, 99.9% to the subordinated unitholders, pro rata, and 0.1% to our general partner, until the capital account for each subordinated unit is equal to the sum of:

- (i) the unrecovered initial unit price; and
- (ii) the amount of the minimum quarterly distribution for the quarter during which our liquidation occurs;

*fourth*, 99.9% to all unitholders, pro rata, and 0.1% to our general partner, until we allocate under this paragraph an amount per unit equal to:

- (i) the sum of the excess of the first target distribution per unit over the minimum quarterly distribution per unit for each quarter of our existence; less
- (ii) the cumulative amount per unit of any distributions of available cash from operating surplus in excess of the minimum quarterly distribution per unit that we distributed 99.9% to the unitholders, pro rata, and 0.1% to our general partner, for each quarter of our existence;

*fifth*, 86.9% to all unitholders, pro rata, and 13.1% to our general partner, until we allocate under this paragraph an amount per unit equal to:

- (i) the sum of the excess of the second target distribution per unit over the first target distribution per unit for each quarter of our existence; less
- (ii)

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the cumulative amount per unit of any distributions of available cash from operating surplus in excess of the first target distribution per unit that we distributed 86.9% to the unitholders, pro rata, and 13.1% to our general partner for each quarter of our existence;

*sixth*, 76.9% to all unitholders, pro rata, and 23.1% to our general partner, until we allocate under this paragraph an amount per unit equal to:

- (i) the sum of the excess of the third target distribution per unit over the second target distribution per unit for each quarter of our existence; less
- (ii) the cumulative amount per unit of any distributions of available cash from operating surplus in excess of the second target distribution per unit that we distributed 76.9% to the unitholders, pro rata, and 23.1% to our general partner for each quarter of our existence; and

*thereafter*, 51.9% to all unitholders, pro rata, and 48.1% to our general partner.



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The percentages set forth above for our general partner include its 0.1% general partner interest and assume our general partner has not transferred the incentive distribution rights and that we have not issued additional classes of equity interests.

If the liquidation occurs after the end of the subordination period, the distinction between common and subordinated units will disappear, so that clause (iii) of the second bullet point above and all of the third bullet point above will no longer be applicable.

*Manner of Adjustments for Losses.* If our liquidation occurs before the end of the subordination period, after making allocations of loss to the general partner and the unitholders in a manner intended to offset in reverse order the allocations of gains that have previously been allocated, we will generally allocate any loss to our general partner and our unitholders in the following manner:

*first*, 99.9% to holders of subordinated units in proportion to the positive balances in their capital accounts and 0.1% to our general partner, until the capital accounts of the subordinated unitholders have been reduced to zero;

*second*, 99.9% to the holders of common units in proportion to the positive balances in their capital accounts and 0.1% to our general partner, until the capital accounts of the common unitholders have been reduced to zero; and

*thereafter*, 100.0% to our general partner.

If the liquidation occurs after the end of the subordination period, the distinction between common and subordinated units will disappear, so that all of the first bullet point above will no longer be applicable.

**Adjustments to Capital Accounts**

Our partnership agreement requires that we make adjustments to capital accounts upon the issuance of additional units. In this regard, our partnership agreement specifies that we allocate any unrealized and, for tax purposes, unrecognized gain resulting from the adjustments to the unitholders and the general partner in the same manner as we allocate gain upon liquidation. If we make positive adjustments to the capital accounts upon the issuance of additional units as a result of such gain, our partnership agreement requires that we generally allocate any later negative adjustments to the capital accounts resulting from the issuance of additional units or upon our liquidation in a manner that results, to the extent possible, in the partners' capital account balances equaling the amount that they would have been if no earlier positive adjustments to the capital accounts had been made. By contrast to the allocations of gain, and except as provided above, we generally will allocate any unrealized and unrecognized loss resulting from the adjustments to capital accounts upon the issuance of additional units to the unitholders and our general partner based on their respective percentage ownership of us. In this manner, prior to the end of the subordination period, we generally will allocate any such loss equally with respect to our common and subordinated units. In the event we make negative adjustments to the capital accounts as a result of such loss, future positive adjustments resulting from the issuance of additional units will be allocated in a manner designed to reverse the prior negative adjustments, and special allocations will be made upon liquidation in a manner designed to result, to the extent possible, in our unitholders' capital account balances equaling the amounts they would have been if no earlier adjustments for loss had been made.

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**SELECTED HISTORICAL AND UNAUDITED PRO FORMA FINANCIAL AND OPERATING DATA**

We were formed on September 8, 2010, and we do not have our own historical financial statements for periods prior to our formation. The following table shows selected historical financial and operating data for NGL Supply and pro forma financial and operating data for NGL Energy Partners LP for the periods and as of the dates indicated. The following table should be read in conjunction with the financial statements and related notes included elsewhere in this prospectus.

The selected historical financial data as of March 31, 2010 and 2009 and for the fiscal years ended March 31, 2010, 2009 and 2008 are derived from the audited historical consolidated financial statements of NGL Supply included elsewhere in this prospectus. The selected historical financial data as of March 31, 2008, 2007 and 2006 and for the fiscal years ended March 31, 2007 and 2006 are derived from our or NGL Supply's financial records. The selected consolidated historical financial data as of September 30, 2010 and 2009 and December 31, 2009 and for the six months ended September 30, 2010 and 2009 and the three months ended December 31, 2009 are derived from the unaudited historical consolidated financial statements of NGL Supply included elsewhere in this prospectus and from NGL Supply's financial records. The selected consolidated historical financial data as of December 31, 2010 and for the three months ended December 31, 2010 are derived from our unaudited historical consolidated financial statements included elsewhere in this prospectus. The results of operations for the interim periods are not necessarily indicative of operating results for the entire year or any future period.

Our selected unaudited pro forma financial data as of December 31, 2010 and for the fiscal year ended March 31, 2010 and the nine months ended December 31, 2010 are derived from the unaudited pro forma financial statements of NGL Energy Partners LP included elsewhere in this prospectus. In the case of the unaudited pro forma balance sheet, the pro forma adjustments have been prepared as if the following transactions had taken place on December 31, 2010:

the split of each common unit held by the members of the NGL Energy LP Investor Group into 3.7219 common units;

the conversion of 5,919,346 common units held by the members of the NGL Energy LP Investor Group on a pro rata basis into 5,919,346 subordinated units;

a contribution of approximately \$70,000 by our general partner to maintain its 0.1% general partner interest; and

the application of the net proceeds from this offering as described in "Use of Proceeds."

In the case of the unaudited pro forma statement of operations, the pro forma adjustments have been prepared as if the following transactions had taken place as of April 1, 2009:

the formation transactions;

the entry into our revolving credit facility;

the split of each common unit held by the members of the NGL Energy LP Investor Group into 3.7219 common units;

the conversion of 5,919,346 common units held by the members of the NGL Energy LP Investor Group on a pro rata basis into 5,919,346 subordinated units; and

a contribution of approximately \$70,000 by our general partner to maintain its 0.1% general partner interest; and

the application of the net proceeds from this offering as described in "Use of Proceeds."

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The pro forma financial and operating data does not give effect to approximately \$1.0 million of estimated incremental annual administration expenses we expect to incur as a result of being a publicly traded partnership.

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You should read the following table in conjunction with "Use of Proceeds," "Management's Discussion and Analysis of Financial Condition and Results of Operations," the historical consolidated financial statements of NGL Supply and the unaudited pro forma financial statements of NGL Energy Partners LP included elsewhere in this prospectus. Among other things, those historical and unaudited pro forma financial statements include more detailed information regarding the basis of presentation for the following information.

	NGL Supply					NGL Energy Partners LP	NGL Supply				NGL Energy Partners LP Unaudited Pro Forma	
						Three Months Ended	Three Months Ended	Six Months Ended	Six Months Ended		Year Ended	Nine Months Ended
	Years Ended March 31,					December 31,	December 31,	September 30,	September 30,		March 31,	December 31,
	2010	2009	2008	2007	2006	2010	2009	2010	2009		2010	2010
(in thousands, except per unit or share data)												
<b>Income Statement Data(1)</b>												
Total operating revenues	\$ 735,506	\$ 734,991	\$ 834,257	\$ 691,434	\$ 742,661	\$ 311,137	\$ 237,497	\$ 316,943	\$ 198,327		\$ 809,633	\$ 648,058
Gross margin	27,291	28,573	16,236	10,533	7,541	19,664	11,393	6,035	6,256		57,484	34,479
Operating income (loss)	6,661	9,431	3,162	1,684	(130)	7,221	6,853	(3,795)	(1,528)		9,766	195
Interest expense	668	1,621	1,061	241	487	1,314	190	372	220		2,422	1,817
Net income (loss) attributable to parent entity	3,636	4,949	1,613	490	(293)	6,056	4,214	(2,515)	(1,049)		7,854	(1,142)
Basic earnings per common share	178.75	242.82	69.17	10.66	(26.17)		213.28	(128.45)	(55.25)			
Diluted earnings per common share	176.61	239.92	68.35	10.53	(26.17)		210.74	(128.45)	(55.25)			
Basic earnings per common unit						2.06					0.54	(0.08)
Diluted earnings per common unit						2.06					0.54	(0.08)
<b>Cash Flows Data(1)</b>												
Cash flows from operating activity	\$ 7,480	\$ 22,459	\$ (10,931)	\$ 8,517	\$ 1,193	\$ 143	\$ 9,279	\$ (30,886)	\$ (20,101)			
Cash distributions per common share								357.09				
Cash distributions per common unit											\$	\$
Capital Expenditures:												
Maintenance(2)	582	577	496	558	812	671	456	280			3,804	3,216
Expansion(3)	3,113	3,532	6,237	1,661		17,128	(242)	121	2,550		3,113	121
Total	3,695	4,109	6,733	2,219	812	17,799	214	401	2,550		6,917	3,337
<b>Balance Sheet Data Period End</b>												
Total assets	\$ 111,580	\$ 103,434	\$ 111,520	\$ 92,112	\$ 88,673	\$ 233,403	\$ 142,568	\$ 148,596	\$ 136,488			\$ 232,403
Total long-term obligations	8,851	9,245	7,830			69,061	8,928	18,940	15,927			5,991
Redeemable preferred stock	3,000	3,000	3,000	3,000	3,000		3,000		3,000			
Equity	46,403	42,691	38,133	36,477	36,120	40,997	45,956	36,811	44,760			103,067
<b>Volume Information (in thousand gallons)</b>												
Retail propane sales volumes	15,514	14,033	10,239			14,676	4,830	3,747	3,795		54,024	25,637
Wholesale propane(4)	623,510	510,255	506,909	499,320	525,682	191,833	187,594	226,330	211,368		623,510	418,163
Wholesale volumes other	53,878	58,523	88,808	159,752	203,794	26,421	17,711	32,100	25,583		53,878	58,521

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NGLs  
Midstream  
terminal  
throughput  
volumes

170,621	136,818	130,348	128,168	116,134	50,451	62,658	43,704	45,869	170,621	94,155
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- (1) The acquisition of retail propane businesses by NGL Supply in fiscal years 2008 through 2010 and by NGL Energy Partners LP in October 2010 affects the comparability of this information.
- (2) Cash expenditures to maintain, including over the long-term, operating capacity and/or income.
- (3) Cash expenditures for acquisitions or capital improvements made to increase, over the long-term, operating capacity or operating income.
- (4) Includes intercompany volumes sold to our retail propane segment.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL  
CONDITION AND RESULTS OF OPERATIONS**

**Overview**

We are a Delaware limited partnership formed in September 2010. As part of our formation, we acquired and combined the assets and operations of NGL Supply, primarily a wholesale propane and terminaling business founded in 1967, and Hicksgas, primarily a retail propane business founded in 1940. We own and, through our subsidiaries, operate a vertically-integrated propane business with three operating segments: retail propane; wholesale supply and marketing; and midstream. We engage in the following activities through our operating segments:

our retail propane business sells propane to end users consisting of residential, agricultural, commercial and industrial customers;

our wholesale supply and marketing business supplies propane and other natural gas liquids and provides related storage to retailers, wholesalers and refiners; and

our midstream business, which currently consists of our propane terminaling business, takes delivery of propane from pipelines and trucks at our propane terminals and transfers the propane to third-party transport trucks for delivery to retailers, wholesalers and other customers.

We serve more than 54,000 retail propane customers in Georgia, Illinois, Indiana and Kansas. We serve approximately 500 wholesale supply and marketing customers in 30 states and approximately 120 midstream customers in Illinois, Missouri and New York.

Our businesses represent a combination of "margin-based," "cost-plus" and "fee-based" revenue generating operations. Our retail propane business generates margin-based revenues, meaning our gross margin depends on the difference between our propane sales price and our total propane supply cost. Our wholesale supply and marketing business generates cost-plus revenues. Cost-plus represents our aggregate total propane supply cost plus a margin to cover our replacement cost consisting of cost of capital, storage, transportation, fuel surcharges and an appropriate competitive margin. Our midstream business generates fee-based revenues derived from a cents-per-gallon charge for the transfer of propane volumes, or throughput, at our propane terminals.

Historically, the principal factors affecting our businesses have been demand and our cost of supply, as well as our ability to maintain or expand our realized margin from our margin-based and cost-plus operations. In particular, fluctuations in the price of propane have a direct impact on our reported revenues and may affect our margins depending on our success of passing cost increases on to our retail propane and wholesale supply and marketing customers.

***Retail Propane***

A significant factor affecting the profitability of our retail propane segment is our ability to maintain or increase our realized gross margin on a cents per gallon basis. Gross margin is the differential between our sales prices and our total product costs, including transportation and storage. Propane prices continued to be volatile during our fiscal years 2008 through 2010 and thereafter. At Conway,

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Kansas, one of our main pricing hubs, the range of low and high-spot propane prices per gallon for the periods indicated and the prices as of period end were as follows:

	Range of Conway, Kansas Spot Price Per Gallon		Spot Price Per Gallon At Period End	
	Low	High		
<b>For the Year Ended March 31,</b>				
2010	\$ 0.5563	\$ 1.4475	\$	1.0625
2009	0.5988	1.8794		0.6475
2008	1.0269	1.8800		1.4588
<b>For the Three Months Ended December 31,</b>				
2010	1.1175	1.28875		1.2775
2009	0.8575	1.36125		1.3350
<b>For the Six Months Ended September 30,</b>				
2010	0.8813	1.1625		1.1625
2009	0.5563	0.9063		0.8750

Historically, we have been successful in passing on price increases to our customers. We monitor propane prices daily and adjust our retail prices to maintain expected margins by passing on the wholesale costs to our customers. We believe that volatility in commodity prices will continue, and our ability to adjust to and manage this volatility may impact our financial results.

In periods of significant propane price increases we have experienced, and expect to continue to experience conservation of propane used by our customers that could result in a decline in our sales volumes, revenues and gross margins. In periods of decreasing costs, we have experienced an increase in our gross margin.

The retail propane business is weather-sensitive. Our retail propane business is also subject to seasonal volume variations due to propane's primary use as a heating source in residential and commercial buildings and for agricultural purposes. As a result, operating revenues are generally highest from October through March.

We believe that the recent economic downturn has caused certain of our retail propane customers to conserve and thereby purchase less propane. Although we believe the economic downturn has not currently had a material impact on our cash collections, it is possible that a prolonged economic downturn could have a negative impact on our future cash collections.

***Wholesale Supply and Marketing***

Through our wholesale supply and marketing segment, we distribute propane and other natural gas liquids to our retail operation and other propane retailers, refiners, wholesalers and other related businesses. Our wholesale business is a "cost-plus" business that is affected both by price fluctuations and volume variations. We establish our selling price based on a pass through of our product supply, transportation, handling, storage and capital costs plus an acceptable margin. The margins we realize in our wholesale business are substantially less as a percentage of revenues or on a per gallon basis than our retail propane business. We attempt to reduce our exposure to the impact of price fluctuations by using "back-to-back" contractual agreements and "pre-sale" agreements which essentially allow us to lock in a margin on a percentage of our winter volumes.

We also have used price swaps in the forward market to lock in the cost of supply without having to purchase physical volumes until needed for our delivery obligations. We have not accounted for these derivatives as hedges. Therefore, changes in the fair value of the derivatives are reflected in our statement of operations, classified as cost of sales of our wholesale supply and marketing segment.

Table of Contents**Midstream**

Our midstream operation is a fee-based business that is impacted primarily by throughput volumes at our three propane terminals. Throughput volumes are impacted by weather, agricultural uses and general economic conditions, all of which are out of our control. We somewhat mitigate the potential decline in throughput volumes by preselling volumes to customers at our terminals in advance of the demand period through our wholesale supply and marketing segment.

**Recent Developments**

The following significant transactions occurred during the nine months ended December 31, 2010:

***Acquisition of Hicks LLC and Gifford***

On October 14, 2010, we purchased the propane-related assets and assumed certain related obligations from Hicks LLC and Gifford, which we collectively refer to as Hicksgas, for a combination of our limited partner interests and payment of approximately \$17.1 million, a total consideration, including assumed liabilities, of approximately \$62.9 million. Hicksgas was founded in 1940 as a retail propane operation and significantly increased its retail propane volumes through acquisitions. During the period since 2007, Hicksgas completed six acquisitions, adding approximately 5.4 million gallons annually of retail propane sales to its business.

For each of their most recently completed fiscal years (June 30, 2010 for Hicks LLC and December 31, 2009 for Gifford), the revenues, gross margin and operating income related to the assets we acquired from Hicks LLC and Gifford were as follows:

	<b>Hicks LLC</b>	<b>Gifford</b>
	<b>(in thousands)</b>	
Revenues	\$ 72,311	\$ 19,777
Gross margin	22,642	7,551
Income before income taxes	2,069	2,268

The historical audited financial statements for the businesses acquired from Hicks LLC and Gifford for their prior three fiscal years and unaudited interim periods are contained elsewhere in this prospectus and should be read in connection with this discussion.

***New Revolving Credit Facility***

On October 14, 2010, we entered into a revolving credit facility with a group of lenders. The revolving credit facility, as amended through April 2011, provides for a total credit facility of \$200.0 million, represented by a \$50.0 million working capital facility and a \$150.0 million acquisition facility. Borrowings under the working capital facility are subject to a defined borrowing base. The working capital facility allows for letter of credit advances of up to \$50.0 million and swingline loans of up to \$5.0 million. See "Liquidity, Sources of Capital and Capital Resource Activities" for further discussion.



Table of Contents**Consolidated Results of Operations**

The following table summarizes the historical consolidated statements of operations of NGL Supply for the fiscal years ended March 31, 2010, 2009 and 2008, the six months ended September 30, 2010 and 2009 and the three months ended December 31, 2009, and our historical consolidated statement of operations for the three months ended December 31, 2010:

	NGL Supply			NGL Energy Partners LP	Three Months Ended December 31,	Three Months Ended December 31,	NGL Supply	
	Year Ended March 31,				2010	2009	Six Months Ended September 30,	Six Months Ended September 30,
	2010	2009	2008		2010	2009	2010	2009
(in thousands)								
Operating revenues	\$ 735,506	\$ 734,991	\$ 834,257	\$	311,137	\$ 237,497	\$ 316,943	\$ 198,327
Cost of sales	708,215	706,418	818,021		291,473	226,104	310,908	192,071
Gross margin	27,291	28,573	16,236		19,664	11,393	6,035	6,256
Operating and general and administrative expenses	17,849	16,652	11,370		10,747	3,796	8,441	6,342
Depreciation and amortization	2,781	2,490	1,704		1,696	744	1,389	1,442
Operating income (loss)	6,661	9,431	3,162		7,221	6,853	(3,795)	(1,528)
Interest expense	(668)	(1,621)	(1,061)		(1,314)	(190)	(372)	(220)
Interest and other income	115	314	431		149	26	190	87
Income (loss) before income taxes	6,108	8,124	2,532		6,056	6,689	(3,977)	(1,661)
Provision (benefit) for income taxes	2,478	3,255	948			2,479	(1,417)	(605)
Net income (loss)	3,630	4,869	1,584		6,056	4,210	(2,560)	(1,056)
Net loss attributable to non-controlling interests	6	80	29			4	45	7
Net income (loss) attributable to Parent Equity	\$ 3,636	\$ 4,949	\$ 1,613	\$	6,056	\$ 4,214	\$ (2,515)	\$ (1,049)

See the detailed discussion of revenues, cost of sales, gross margin, operating expenses, general and administrative expenses, depreciation and amortization and operating income by operating segment below.

Set forth below is a discussion of significant changes in the non-segment related corporate other income and expenses during the respective periods.

**Interest Expense**

Our interest expense consists of interest on borrowings under a revolving credit facility, letter of credit fees and amortization of debt issuance costs. See Note 9 to the March 31, 2010 consolidated financial statements of NGL Supply and Note 7 to our unaudited consolidated financial statements as of December 31, 2010 for additional information on our long-term debt. The change in interest expense during the periods presented is due primarily to fluctuations of the average outstanding debt balance

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and the average interest rate. During the periods indicated, our average outstanding principal balance and average interest rates were as follows:

	<b>Average Balance Outstanding (in thousands)</b>	<b>Average Interest Rate</b>
<b>Year Ended March 31,</b>		
2010	\$ 10,642	3.64%
2009	26,785	4.56%
2008	12,483	7.01%
<b>Three Months Ended December 31,</b>		
2010	76,232	5.59%
2009	15,449	3.25%
<b>Six Months Ended September 30,</b>		
2010	\$ 14,571	4.38%
2009	9,407	3.17%

The increased levels of debt outstanding during fiscal 2009, fiscal 2008 and the three months ended December 31, 2010 are due to borrowings to finance our acquisitions of retail propane businesses.

## ***Interest and other Income***

Our non-operating other income consists of the following:

	<b>NGL Supply</b>			<b>NGL Energy Partners LP Three Months Ended December 31, 2010</b>	<b>Three Months Ended December 31, 2009</b>	<b>NGL Supply</b>	
	<b>Year Ended March 31, 2010</b>	<b>2009</b>	<b>2008</b>			<b>Six Months Ended September 30, 2010</b>	<b>Six Months Ended September 30, 2009</b>
	<b>(in thousands)</b>						
Interest income	\$ 120	\$ 162	\$ 361	\$ 93	\$ 23	\$ 66	\$ 56
Gain (loss) on sale of assets	(11)	150	(1)			124	
Other	6	2	71	56	3		31
	\$ 115	\$ 314	\$ 431	\$ 149	\$ 26	\$ 190	\$ 87

Interest income for fiscal 2010 and fiscal 2009 is less than interest income for fiscal 2008 due to the decline in interest rates earned on our cash deposits during fiscal 2010 and fiscal 2009.

The gain on sale of assets in fiscal 2009 and during the six months ended September 30, 2010 represents the proceeds from sale of certain salvaged propane tanks, vehicles and other miscellaneous equipment. No such sales occurred in the other periods presented.

## ***Income Tax Provision***

The income tax provision of NGL Supply fluctuates based on the level of realized pretax income. As a percentage of pretax income, the variance from the expected or statutory rate of 35% is due to the effects of state income taxes and a valuation allowance recorded each year related to the losses incurred by the propane terminal in St. Catharines, Ontario, which we refer to as Gateway, which NGL Supply owned 70% through September 30, 2010. See Note 10 to the March 31, 2010 consolidated financial statements of NGL Supply for additional discussion of the income tax provisions.

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We expect to qualify as a partnership for U.S. federal income taxes. Accordingly, there is no provision for U.S. federal and state income taxes for periods subsequent to September 30, 2010.

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**Non-Controlling Interests**

Our non-controlling interests represent the 30% of Gateway we did not own through September 30, 2010. The operations of Gateway have historically resulted in net losses. We purchased the additional 30% interest in October 2010. See our discussion of our midstream segment below that includes the operations of Gateway.

**Non-GAAP Financial Measures**

The following table reconciles net income (loss) attributable to parent to our EBITDA and Adjusted EBITDA, each of which are non-GAAP financial measures, for the periods indicated:

	NGL Supply			NGL Energy Partners LP		NGL Supply	
	Year Ended March 31,			Three Months Ended December 31,	Three Months Ended December 31,	Six Months Ended September 30,	Six Months Ended September 30,
	2010	2009	2008	2010	2009	2010	2009
(in thousands)							
<b>EBITDA:</b>							
Net income (loss) to parent	\$ 3,636	\$ 4,949	\$ 1,613	\$ 6,056	\$ 4,214	\$ (2,515)	\$ (1,049)
Provision (benefit) for income taxes	2,478	3,255	948		2,479	(1,417)	(605)
Interest expense	668	1,621	1,061	1,314	190	372	220
Depreciation and amortization	3,752	3,290	2,498	1,896	944	1,789	1,842
<b>EBITDA</b>	<b>\$ 10,534</b>	<b>\$ 13,115</b>	<b>\$ 6,120</b>	<b>\$ 9,266</b>	<b>\$ 7,827</b>	<b>\$ (1,771)</b>	<b>\$ 408</b>
Unrealized (gain) loss on derivative contracts	(563)	17	36	31	39	200	282
Loss (gain) on sale of assets	11	(150)	1			(124)	
Share-based compensation expense		97	194				
<b>Adjusted EBITDA</b>	<b>\$ 9,982</b>	<b>\$ 13,079</b>	<b>\$ 6,351</b>	<b>\$ 9,297</b>	<b>\$ 7,866</b>	<b>\$ (1,695)</b>	<b>\$ 690</b>

We define EBITDA as net income (loss) attributable to parent entity, plus income taxes, interest expense and depreciation and amortization expense. We define Adjusted EBITDA as EBITDA excluding the unrealized gain or loss on derivative contracts, the gain or loss on the disposal of assets and share-based compensation expenses. EBITDA and Adjusted EBITDA should not be considered an alternative to net income, income before income taxes, cash flows from operating activities, or any other measure of financial performance calculated in accordance with GAAP as those items are used to measure operating performance, liquidity or the ability to service debt obligations. We believe that EBITDA provides additional information for evaluating our ability to make quarterly distributions to our unitholders and is presented solely as a supplemental measure. We believe that Adjusted EBITDA provides additional information for evaluating our financial performance without regard to our financing methods, capital structure and historical cost basis. Further, EBITDA and Adjusted EBITDA, as we define them, may not be comparable to EBITDA and Adjusted EBITDA or similarly titled measures used by other entities.

Table of Contents**Segment Operating Results****Fiscal Year Ended March 31, 2010 Compared to Fiscal Year Ended March 31, 2009 for NGL Supply*****Volumes Sold or Throughput***

The following table summarizes the volume of gallons sold by our retail propane and wholesale supply and marketing segments and the throughput volume for our midstream segment for the fiscal years ended March 31, 2010, and 2009, respectively:

Segment	Year Ended March 31,		Change	
	2010	2009	In Units	Percent
	(gallons in thousands)			
Retail propane	15,514	14,033	1,481	10.6%
Wholesale supply and marketing	677,388	568,778	108,610	19.1%
Midstream	170,621	136,818	33,803	24.7%
Total	863,523	719,629	143,894	20.0%

During fiscal 2010, we sold 15.5 million retail gallons of propane, an increase of 1.5 million gallons, or 10.6%, from the 14.0 million retail gallons of propane sold during fiscal 2009. Gallons sold during fiscal 2010 increased compared to fiscal 2009 primarily as a result of our acquisition of Reliance Energy Partners, L.L.C., or Reliance, in Kansas in August 2009. During the two years prior to our acquisition, Reliance had annual sales of approximately 2 million gallons. The increase from the Reliance volumes was partially offset by lower volumes in Georgia. Our Georgia volumes decreased 0.5 million gallons as a result of customer conservation from, we believe, the overall weak U.S. economic environment and, to a lesser extent, the lingering effects of higher propane costs, and an abrupt end to the 2009/2010 winter heating season. Weather conditions have a significant impact on our volumes. Average temperatures during fiscal 2010, as measured in heating degree days (as reported by the National Oceanic and Atmospheric Administration), were approximately 14.8% colder than fiscal 2009 in Kansas, and approximately 25.2% warmer in Georgia as compared to fiscal 2009.

Wholesale supply and marketing gallons overall increased 108.6 million gallons, or 19.1%, to 677.4 million gallons in fiscal 2010 from 568.8 million gallons in fiscal 2009. The increase was due primarily to greater volumes sold to agricultural markets for crop drying and colder weather in the Mid-Continent region of the United States, plus the increased volumes sold to our retail propane segment as a result of the Reliance acquisition.

Our midstream throughput in fiscal 2010 increased 24.7%, or approximately 33.8 million gallons, over the fiscal 2009 throughput of approximately 136.8 million gallons. This increase in volume is due primarily to the same factors that resulted in an increase in our wholesale supply and marketing volumes.

Table of Contents**Operating Income by Segment**

Our operating income by segment is as follows:

Segment	Year Ended March 31,		
	2010	2009	Change
	(in thousands)		
Retail propane	\$ 1,391	\$ 525	\$ 866
Wholesale supply and marketing	6,912	10,531	(3,619)
Midstream	2,695	1,652	1,043
Corporate general and administrative expenses	(4,337)	(3,277)	(1,060)
Total	\$ 6,661	\$ 9,431	\$ (2,770)

The increased corporate general and administrative expense of \$1.06 million in fiscal 2010 over fiscal 2009 is due primarily to increased bonus payments to our corporate management of approximately \$764,000 over the 2009 bonus payments, an increase in corporate management compensation of approximately \$76,000 and an increase in legal and accounting fees of approximately \$221,000.

**Retail Propane**

The following table compares the operating results of our retail propane segment for the periods indicated:

	Year Ended March 31,		
	2010	2009	Change
	(in thousands)		
Propane sales	\$ 25,076	\$ 28,518	\$ (3,442)
Service and rental income	1,269	1,143	126
Parts and fittings sales	622	587	35
Cost of sales	(15,603)	(21,612)	6,009
Gross margin	11,364	8,636	2,728
Operating expenses	7,140	5,664	1,476
General and administrative expenses	1,107	994	113
Depreciation and amortization	1,726	1,453	273
Segment operating income	\$ 1,391	\$ 525	\$ 866

During fiscal 2010, we had one retail propane acquisition (our acquisition of Reliance) that closed in August 2009. During the two years prior to our acquisition, Reliance had annual sales of approximately 2 million gallons. In addition, the propane acquisitions we made during fiscal 2009 benefited our results of operations for a full 12 months in fiscal 2010 versus only approximately 10 months during fiscal 2009.

**Revenues.** Revenues from retail propane sales were \$25.1 million for fiscal 2010, a decrease of \$3.4 million, or 12.1%, compared to \$28.5 million for fiscal 2009. The decrease in propane sales was the net effect of a volume increase and an average sale price decrease. For fiscal 2010, our average sale price decreased to \$1.62 per gallon, compared to \$2.03 in fiscal 2009, resulting in a revenue decrease of approximately \$5.8 million. However, our sales volume increases resulted in increased revenue of approximately \$2.4 million, resulting in a net decrease in revenue of \$3.4 million. The average sale price decrease is due to the decline in the propane prices overall during fiscal 2010. The volume increase is

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due primarily to the acquisition of Reliance during fiscal 2010 and colder weather in our Kansas region partially offset by the effects of warmer weather in Georgia as compared to fiscal 2009.

Service and rental income increased approximately \$126,000 in fiscal 2010 compared to fiscal 2009 revenues of \$1.1 million, due primarily to revenues from our Reliance acquisition.

*Cost of Sales.* Cost of sales in fiscal 2010 decreased \$6.0 million from the fiscal 2009 level of \$21.6 million. This decrease is due primarily to the decreased cost of propane sales of approximately \$6.1 million, offset by an increased cost of sales from our sales of parts and fittings. The overall decrease in cost of propane sales in fiscal 2010 is the net effect of an increased cost of sales of \$2.2 million resulting from the increased volume of propane sales and a decreased cost of sales of \$8.3 million resulting from a decline in our per gallon average propane cost.

*Gross Margin.* Our gross margin increased \$2.7 million during fiscal 2010 over the fiscal 2009 gross margin of \$8.6 million, due primarily to an increased gross margin from propane sales of \$2.7 million and the increase in service and rental income. Our margin per gallon on propane sales during fiscal 2010 was \$0.64, compared to the margin per gallon in fiscal 2009 of \$0.52 resulting from our ability to improve our propane margin per gallon during periods of declining propane prices. The higher gross margin on propane sales of \$2.7 million consisted of an increase of \$768,000 from the increased sales volume and an increase of \$1.9 million from the \$0.12 per gallon margin increase over fiscal 2009.

*Operating Expenses.* Our propane operating expenses increased by \$1.5 million during fiscal 2010 as compared to the fiscal 2009 operating expenses of \$5.7 million. The principal reason for the cost increases is the effect of the Reliance acquisition during fiscal 2010 and the full year of expenses from our fiscal 2009 acquisitions compared to having those operations for approximately 10 months in fiscal 2009. In addition, we paid bonuses of approximately \$285,000 to our propane employees during fiscal 2010 as compared to no bonuses in the prior years. Bonus payments in the future will be dependent on the results of operations of the retail propane segment. Other significant individual cost increases were compensation cost increases of approximately \$535,000, general and medical insurance costs of \$332,000 and vehicle operating costs of \$55,000, all primarily related to increases in personnel and vehicles resulting from acquisitions in fiscal 2010 and fiscal 2009.

*General and Administrative Expenses.* General and administrative expenses increased by \$113,000 in fiscal 2010 compared to the fiscal 2009 expenses of \$1.0 million. This increase is due primarily to the impact of our fiscal 2010 and fiscal 2009 acquisitions. The principal cost increases were for office expenses, including rents, of \$26,000 and an increase in other office expenses of approximately \$27,000.

*Depreciation and Amortization.* The increased depreciation and amortization expense of \$273,000 over fiscal 2009 depreciation and amortization of \$1.5 million is due to the depreciation and amortization of property and equipment and intangibles in the 2010 Reliance acquisition and a full year of depreciation and amortization expense during fiscal 2010 on the fiscal 2009 acquisitions, compared to approximately 10 months of expense in fiscal 2009.

*Operating Income.* Overall, operating income from our retail propane segment for fiscal 2010 increased \$866,000 from the fiscal 2009 operating income of \$525,000. This increase is due to the improved margins we realized on propane sales resulting from our sales volume increases and our ability to improve our cents per gallon margin during periods of declining propane prices in excess of the increased operating, administrative and depreciation and amortization costs we incurred as a result of our acquisitions during fiscal 2010 and fiscal 2009.

Table of Contents**Wholesale Supply and Marketing**

The following table compares the operating results of our wholesale supply and marketing segment for the periods indicated:

	<b>Year Ended March 31,</b>		
	<b>2010</b>	<b>2009</b>	<b>Change</b>
	<b>(in thousands)</b>		
Wholesale supply sales	\$ 727,008	\$ 730,474	\$ (3,466)
Storage revenues	2,368	1,741	627
Cost of sales	(717,085)	(715,114)	(1,971)
Gross margin	12,291	17,101	(4,810)
Operating expenses	4,314	5,343	(1,029)
General and administrative expenses	844	1,027	(183)
Depreciation and amortization	221	200	21
Segment operating income	\$ 6,912	\$ 10,531	\$ (3,619)

**Revenues.** Our wholesale supply and marketing segment generates revenues from the sale of propane and other natural gas liquids and from storage of propane for third parties. Our average selling price and gross margins per gallon for our wholesale supply and marketing segment are less than we realize in our retail propane segment. Revenues from wholesale sales of propane and other natural gas liquids sales were \$727.0 million in fiscal 2010, a decrease of \$3.5 million, or 0.5%, from \$730.5 million in fiscal 2009. The decrease in sales revenue of \$3.5 million in fiscal 2010 is due to the net effect of increased volumes and a reduced average sales price. Our volume increase of 108.6 million gallons resulted in an increased revenue of approximately \$116.5 million. However, our average per gallon selling price declined from \$1.28 in fiscal 2009 to \$1.07 in fiscal 2010. The impact on our total revenues as a result of this price decline is a decrease in revenue of approximately \$120.0 million. Propane prices fluctuated significantly during our fiscal years 2008 through 2010, and the average propane prices on the spot market reflected an overall decline in fiscal 2009 and fiscal 2010 from the levels reached during our fiscal 2008. Our volume increased during fiscal 2010 due to an increase in volumes sold for crop drying in the Mid-Continent region, colder weather and the increased volumes sold to our retail operation during fiscal 2010 due to the impact of acquisitions in fiscal 2009.

Our storage revenues increased \$627,000 in fiscal 2010 compared to storage revenues of \$1.7 million in fiscal 2009. The principal reason for the increased storage revenues is an increased level of propane presales to our wholesale supply and marketing customers that resulted from the propane spot price declines and the impact of colder weather in fiscal 2010 as compared to fiscal 2009. This resulted in an increase in the volume of propane our customers stored in our facilities in fiscal 2010 as compared to fiscal 2009.

**Cost of Sales.** The cost of sales in fiscal 2010 for our wholesale supply and marketing segment increased \$2.0 million over the fiscal 2009 cost of sales of \$715.1 million, due primarily to the effect of the increased volumes. The impact on cost of sales from the increased volumes is an increase of \$115.0 million. However, our cost per gallon sold declined from \$1.26 in fiscal 2009 to \$1.06 in fiscal 2010, which resulted in a decrease to cost of sales of \$113.0 million. The decrease in our per gallon cost reflects the price changes that occurred in the propane spot market during fiscal 2010 and the effect of a writedown of propane inventory of approximately \$5.3 million in fiscal 2009.

**Gross Margin.** On an overall basis, the gross margins we realize in our wholesale supply and marketing segment, both as a percentage of our revenues and on a per gallon sold basis, are lower than the margins we realize from our retail propane operation. We attempt to maintain our margins period to



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period through our cost-plus pricing strategy. However, in periods of significant decreases in the propane spot price, such as occurred during fiscal 2009 as compared to fiscal 2008, we may be able to increase our per gallon margin. In periods where prices are relatively stable or fluctuate in a somewhat more normal level (such as occurred during fiscal 2010), our margins could decline. That is what we experienced during fiscal 2010. Our margin per gallon was \$0.0146 in fiscal 2010, compared to \$0.0270 during fiscal 2009. However, our margin per gallon improved over the levels we realized during fiscal 2008 when spot market prices fluctuated significantly during the year.

*Operating Expenses.* Our wholesale supply and marketing segment operating expenses decreased \$1.0 million in fiscal 2010 from the fiscal 2009 level of \$5.3 million. This decrease is due principally to a reduction in personnel in our wholesale supply and marketing segment. During fiscal 2010, compensation and commission expense decreased approximately \$798,000, employee insurance decreased approximately \$142,000 and consultant fee expense decreased approximately \$36,000.

*General and Administrative Expenses.* General and administrative expenses for our wholesale supply and marketing segment decreased \$183,000 over fiscal 2009 expense of \$1.0 million. This decrease is due primarily to a reduction of bad debt expense in fiscal 2010 of \$269,000 due to improving economic conditions.

*Operating Income.* Operating income for our wholesale supply and marketing segment decreased \$3.6 million in fiscal 2010 from fiscal 2009 operating income of \$10.5 million. The decreased operating income in fiscal 2010 is due to the \$4.8 million decline in our gross margin, which exceeded the overall reduction of our operating and general and administrative expenses.

**Midstream**

The following table compares the operating results of our midstream segment for the periods indicated:

	<b>Year Ended March 31,</b>		
	<b>2010</b>	<b>2009</b>	<b>Change</b>
	<b>(in thousands)</b>		
Operating revenues	\$ 4,103	\$ 3,259	\$ 844
Cost of sales	(467)	(423)	(44)
Gross margin	3,636	2,836	800
Other operating expenses	69	67	2
General and administrative expenses	37	280	(243)
Depreciation and amortization	835	837	(2)
Segment operating income	\$ 2,695	\$ 1,652	\$ 1,043

*Revenues.* Our midstream segment operating revenues historically consist of fees earned on throughput at our propane terminals in Missouri, Illinois and Canada. Our revenue is fee-based which will vary primarily by the terminal throughput. We did not change our fee structure during fiscal 2010. Therefore, the increased revenue of \$844,000 during fiscal 2010 is due exclusively to an increase in the throughput volume in our Missouri and Illinois terminals. The increased revenues in Canada were insignificant. The volume increased during fiscal 2010 due primarily to the improved agricultural market for crop-drying purposes and the colder weather experienced in the Mid-Continent region. In fiscal 2010, our revenues by geographic region were \$3.9 million in the United States, and \$243,000 in Canada. In fiscal 2009, our operating revenues were \$3.0 million in the United States and \$242,000 in Canada.

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**Cost of Sales.** We include in cost of sales the cost of mercaptan (the odorant added to propane) and the charges we incur in the operation of our terminal facilities. The \$44,000 increase in fiscal 2010 cost of sales over fiscal 2009 cost of sales of \$423,000 is due to increases in the cost of mercaptan during fiscal 2010 resulting from the increased throughput.

**Gross Margin.** Our midstream gross margin in fiscal 2010 increased \$800,000 over the gross margin of \$2.8 million we realized in fiscal 2009. This increase is due primarily to increased throughput volumes in our U.S. terminals.

**General and Administrative Expenses.** The decreased general and administrative expenses for our midstream segment of \$243,000 over fiscal 2009 expense of \$280,000 is due to the benefit we realized from Canadian dollar exchange rate changes during fiscal 2010. During fiscal 2010, the impact of Canadian exchange rate transaction gains and losses (which we record in general and administrative expenses of our midstream segment) was an overall gain of \$132,000, compared to exchange rate transaction losses of \$128,000 during fiscal 2009, an improvement of \$260,000.

**Operating Income.** Our midstream segment operating income increased \$1.0 million during fiscal 2010 over the operating income we realized in fiscal 2009 of \$1.7 million. This increased operating income is due to an \$800,000 increase in our gross margin, resulting from increased throughput volumes, and a decreased total operating and general and administrative expenses of \$241,000. During both fiscal 2010 and fiscal 2009, all of our three propane terminals were operated by third parties under operating and maintenance agreements with specified service charges. This provides us with an ability to operate these facilities at a relatively fixed cost structure. Our principal variable costs are limited primarily to the cost of utilities and mercaptan, which fluctuate with changes in our throughput volume. Thus, as our throughput increases, our operating income tends to increase because of the limited effect such throughput increases have on our overall cost structure.

### **Fiscal Year Ended March 31, 2009 Compared to Fiscal Year Ended March 31, 2008 for NGL Supply**

#### **Volumes Sold or Throughput**

The following table summarizes the volume of gallons sold by our retail propane and wholesale supply and marketing segments and the throughput volume for our midstream segment for the fiscal years ended March 31, 2009 and 2008, respectively:

Segment	Year Ended March 31,		Change	
	2009	2008	In Units	Percent
	(gallons in thousands)			
Retail propane	14,033	10,239	3,794	37.1%
Wholesale supply and marketing	568,778	595,717	(26,939)	(4.5)%
Midstream	136,818	130,348	6,470	5.0%
Total	719,629	736,304	(16,675)	(2.3)%

During fiscal 2009, our retail propane volumes increased 3.8 million gallons, or 37.1%, over the gallons sold during fiscal 2008. This increase is due primarily to the impact of acquisitions in both fiscal 2008 and fiscal 2009. NGL Supply began retail propane operations during fiscal 2008 with the acquisition of Propane Central LLC, or Propane Central, and four other propane acquisitions. These acquisitions were included in our operations for approximately nine months during fiscal 2008 as compared to a full year in fiscal 2009. In addition, we made three additional acquisitions during fiscal 2009 which added a total of approximately 3.3 million gallons in fiscal 2009 over fiscal 2008. Weather in our service areas also impacts our volumes. Fiscal 2009 was 4% warmer in Kansas and 20% colder in Georgia, both as compared to fiscal 2008.

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Our wholesale supply and marketing volumes declined during fiscal 2009 by approximately 26.9 million gallons, or 4.5%, from the 595.7 million gallons sold during fiscal 2008. This decline was primarily due to the non-renewal of a term purchase contract we had with one of our wholesale suppliers in fiscal 2009 under which we had purchased for sale approximately 150,000 barrels per month in fiscal 2008.

Our midstream volumes increased 6.5 million gallons in fiscal 2009, or 5%, over the 130.3 million gallons throughput for fiscal 2008. This increase in volume is due to increased activity in our U.S. terminals due to the effect of increased supply and pre-sale agreements with our wholesale and retail customers.

***Operating Income by Segment***

Our operating income by segment is as follows:

Segment	Year Ended March 31,		
	2009	2008	Change
	(in thousands)		
Retail propane	\$ 525	\$ 825	\$ (300)
Wholesale supply and marketing	10,531	2,852	7,679
Midstream	1,652	1,649	3
Corporate general and administrative expenses	(3,277)	(2,164)	(1,113)
Total	\$ 9,431	\$ 3,162	\$ 6,269

The increase in corporate general and administrative expenses of \$1.1 million in fiscal 2009 as compared to fiscal 2008 is due primarily to an increase in bonuses to corporate management of approximately \$1.3 million offset by a decrease in legal and professional fees of approximately \$139,000.

***Retail Propane***

During fiscal 2009, we acquired three propane companies that were included in our fiscal 2009 operations for approximately 10 months. Our acquisition of Capital City Oil, Inc. added approximately 2.369 million gallons to our sales volume for fiscal 2009, while our acquisitions of Douglas Propane Gas Company, Inc. and Morris Propane Service Inc. added approximately 0.9 million gallons to our sales volume for fiscal 2009. These acquisitions were not included in our fiscal 2008 operations. In addition, we began our retail propane operation through our acquisition of Propane Central in July 2007 and made four other propane acquisitions during fiscal 2008. These acquisitions benefited our operation for all of fiscal 2009, while being included in fiscal 2008 operations for less than 12 months. The most significant fiscal 2008 acquisition was Propane Central which was included in our fiscal 2008 operation for nine months.

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The following table compares the operating results of our retail propane segment for the periods indicated:

	Year Ended March 31,		
	2009	2008	Change
	(in thousands)		
Propane sales	\$ 28,518	\$ 17,065	\$ 11,453
Service and rental income	1,143	592	551
Parts and fittings sales	587	382	205
Cost of sales	(21,612)	(12,970)	(8,642)
Gross margin	8,636	5,069	3,567
Operating expenses	5,664	3,025	2,639
General and administrative expenses	994	556	438
Depreciation and amortization	1,453	663	790
Segment operating income	\$ 525	\$ 825	\$ (300)

**Revenues.** Revenues from retail propane sales were \$28.5 million for fiscal 2009, an increase of \$11.5 million, or 67.1%, compared to \$17.0 million for fiscal 2008. The increased sales resulted from the effect of both a volume increase and an average sale price increase. The increased propane volumes were primarily due to the effect of fiscal 2008 and fiscal 2009 acquisitions. For fiscal 2009, our average sale price was \$2.03 per gallon, compared to \$1.67 in fiscal 2008, resulting in a revenue increase of approximately \$3.7 million. Our sales volume increases resulted in increased revenue of approximately \$7.7 million, resulting in an increase of \$11.5 million. The average sale price increase is due to our ability to maintain our prices during the period of declining spot propane prices during fiscal 2009.

The increases in our service revenues and parts and fittings sales are due primarily to revenues from the acquisitions during fiscal 2009 and fiscal 2008.

**Cost of Sales.** Our retail propane segment cost of sales increased \$8.6 million during fiscal 2009 as compared to cost of sales of \$13.0 million during fiscal 2008. This increase is due primarily to an increased cost of propane sales of \$8.5 million in fiscal 2009. The increased total cost of propane sales is due to the impact of volume increases, approximately \$5.7 million, and the effect of an increased product cost of \$0.27 per gallon, approximately \$2.8 million.

**Gross Margin.** The realized gross margin of our retail propane segment increased \$3.6 million in fiscal 2009 over the realized margin of \$5.1 million during fiscal 2008. This increase is due primarily to the impact of fiscal 2009 acquisitions and the effect of a full year of operations in fiscal 2009 from the fiscal 2008 acquisitions, compared to approximately nine months in fiscal 2008. During fiscal 2009, our per-gallon gross margin on propane sales increased \$0.10, from \$0.42 in fiscal 2008 to \$0.52 in fiscal 2009. Propane prices increased significantly, with significant fluctuation, during our fiscal 2008 as compared to fiscal 2009. As a result, we were able to pass on our increased costs to our customers without having to reduce our sales prices as quickly when prices declined in fiscal 2009, resulting in an overall increased margin both in terms of dollars and on a per gallon basis.

**Operating Expenses.** Operating expenses of the retail propane segment increased by \$2.6 million in fiscal 2009 as compared to the fiscal 2008 level of \$3.0 million. This increase is due primarily to the impact of the fiscal 2009 and fiscal 2008 acquisitions. The principal cost increases were increased compensation expense of \$1.5 million, increased insurance costs of \$477,000 and increased vehicle expenses of \$483,000, all of which are due to the increased number of personnel and vehicles as a result of the acquisitions.

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**General and Administrative Expenses.** Our retail propane segment general and administrative expenses increased \$438,000 from fiscal 2008 expenses of \$556,000. This increase is also due to the effect of the fiscal 2009 and fiscal 2008 acquisitions. The principal cost increases were \$284,000 for office rental and expenses, \$43,000 for data processing costs and \$75,000 for taxes other than income, all of which relate to the increased number of customer service locations added as a result of our acquisitions.

**Depreciation and Amortization.** Depreciation and amortization expense of the retail propane segment in fiscal 2010 increased \$790,000 over the total depreciation and amortization expense of \$663,000 in fiscal 2008. This increase is due to the increased costs of property, equipment and intangible assets as a result of our fiscal 2009 acquisitions, plus the effect of a full year of depreciation and amortization in fiscal 2009 from our fiscal 2008 acquisitions, as compared to approximately nine months in fiscal 2008.

**Operating Income.** Our operating income from the retail propane segment was \$525,000 in fiscal 2009 as compared to \$825,000 in fiscal 2008, a decrease of \$300,000. The overall decrease in operating income is due to our operating and general and administrative cost increases exceeding our increased gross margin from increased volumes and increased average sale prices in excess of our increased per gallon product costs.

### **Wholesale Supply and Marketing**

The following table compares the operating results of our wholesale supply and marketing segment for the periods indicated:

	<b>Year Ended March 31,</b>		
	<b>2009</b>	<b>2008</b>	<b>Change</b>
	<b>(in thousands)</b>		
Wholesale supply sales	\$ 730,474	\$ 853,488	\$ (123,014)
Storage revenues	1,741	723	1,018
Cost of sales	(715,114)	(845,702)	130,588
Gross margin	17,101	8,509	8,592
Operating expenses	5,343	4,503	840
General and administrative expenses	1,027	966	61
Depreciation and amortization	200	188	12
Segment operating income	\$ 10,531	\$ 2,852	\$ 7,679

**Revenues.** Revenues from wholesale propane and other natural gas liquids sales were \$730.5 million in fiscal 2009, a decrease of \$123.0 million, or 14.4%, from \$853.5 million in fiscal 2008. The decrease in revenues from the sale of propane and other natural gas liquids was due to both a decrease in our average sales price and a decrease in volumes. During fiscal 2009, our average sales price for propane and other liquids was \$1.28 per gallon as compared to \$1.43 per gallon during fiscal 2008. This decline was due to the significant decrease in the propane spot price during fiscal 2009 from the levels reached during fiscal 2008. The decline in the average sale price resulted in a decrease of \$34.6 million in our sales revenues. The volume decrease resulted in decreased revenue of \$88.4 million.

Due to the increased volume of pre-sale arrangements, our storage revenues increased during fiscal 2009. We also increased our storage fee per gallon during fiscal 2009 because of storage fee increases by our competitors at Conway and other locations. The impact of these actions was an increase of our storage revenues of \$1.0 million in fiscal 2009 over the storage revenues we realized in fiscal 2008 of \$723,000.

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*Cost of Sales.* The cost of sales for our wholesale supply and marketing segment decreased \$130.6 million during fiscal 2009 from fiscal 2008 cost of sales of \$845.7 million. This decrease in cost of sales is due to both a reduction in volumes sold and a decline in our average cost of propane. The volume reduction resulted in a decrease of \$33.9 million in cost of sales. Our average per gallon cost of propane and other natural gas liquids decreased to \$1.26 in fiscal 2009 from \$1.42 in fiscal 2008. The decrease in cost per gallon is reflective of the changes that occurred in the spot propane market in fiscal 2009 as compared to fiscal 2008. The decrease in our propane cost resulting from the decline in the spot price of propane was partially offset by an increased cost of sales due to a writedown we recorded for our year end propane inventory valuation of approximately \$5.3 million. This writedown was required due to the significant reduction in the price of propane at March 31, 2009 as compared to the prices we paid for wholesale inventories during fiscal 2008 and fiscal 2009. The propane spot price at March 31, 2009 for Conway, Kansas, for example, was \$0.6475 per gallon, as compared to the year end price of \$1.4588 for fiscal 2008. Our accounting policy is to value our wholesale supply and marketing segment propane inventories at lower of cost or market, and at year end (or at an interim date if we believe prices will not recover by year end), we will record a charge to cost of sales if our inventory cost exceeds the market price. No such writedowns were required during fiscal 2008.

*Gross Margin.* Gross margins in our wholesale supply and marketing segment improved significantly during fiscal 2009 over our margins in fiscal 2008, both in total and on a per gallon basis. Overall, our gross margin increased \$8.6 million, due to an increase in storage revenues of \$1.0 million and an increased margin on sales of propane and other natural gas liquids of \$7.6 million. The margin increase on product sales resulted from our ability to pass on more of our cost to our wholesale customers during fiscal 2009 than we did in fiscal 2008. This was due in large part to the pre-sale agreements we were able to execute. During fiscal 2009, our margin per gallon sold was \$0.027, compared to \$0.013 during fiscal 2008. Fiscal 2009 was an extraordinary period during which we were able to expand our margins as a result of the significant price fluctuations experienced in fiscal 2008, followed by the significant reductions in fiscal 2009, particularly when compared to more historical price trends.

*Operating Expenses.* Operating expenses in fiscal 2009 of our wholesale supply and marketing segment increased \$840,000 over the \$4.5 million of operating expenses in fiscal 2008. This increase is due entirely to an increase in the bonuses paid to our wholesale employee group of \$1.0 million over the fiscal 2008 bonuses of \$432,000. The increased bonuses were the result of the significant pre-bonus operating income of the wholesale supply and marketing segment. The increase resulting from the increased bonus payment was reduced by the impact of a decrease in compensation expense resulting from a reduction in our employee headcount in the wholesale supply and marketing segment during fiscal 2009.

*General and Administrative Expenses.* The increase in general and administrative expense of the wholesale supply and marketing segment of \$61,000 in fiscal 2009 over the expense of \$1.0 million in fiscal 2008 is due primarily to an increase in taxes other than income.

*Operating Income.* The operating income we realized in the wholesale supply and marketing segment during fiscal 2009 was \$7.7 million greater than the \$2.8 million operating income we realized during fiscal 2008. The increase was due to the impact of a significant increase in our gross margin in excess of the increased segment operating and general and administrative expenses. Fiscal 2009 was unusual due to the sudden and dramatic changes in propane prices that occurred during fiscal 2008 and fiscal 2009. Spot propane prices increased suddenly and significantly to record-setting levels during fiscal 2008, then just as suddenly and dramatically declined during fiscal 2009, particularly during the last quarter of fiscal 2009. As a result, we were able to successfully improve our per gallon margins during fiscal 2009. We would expect our margins in the future, however, to be similar to the per gallon margins we realized during fiscal 2008.

Table of Contents**Midstream**

The following table compares the operating results of our midstream segment for the periods indicated:

	Year Ended March 31,		
	2009	2008	Change
	(in thousands)		
Operating revenues	\$ 3,259	\$ 3,055	\$ 204
Cost of sales	(423)	(397)	(26)
Gross margin	2,836	2,658	178
Other operating expenses	67	80	(13)
General and administrative expenses	280	76	204
Depreciation and amortization	837	853	(16)
Segment operating income	\$ 1,652	\$ 1,649	\$ 3

**Revenues.** Our midstream segment operating revenues increased \$204,000 during fiscal 2009 over fiscal 2008 operating revenues of \$3.1 million. During fiscal 2009 and fiscal 2008, we did not adjust the fee structure we use for our terminal operations. Therefore, the increased revenue is due entirely to an increase in throughput at our terminals. Our U.S. terminals generated revenues of \$3.0 million in fiscal 2009, compared to \$2.8 million in fiscal 2008, while revenues in our Canada terminal were \$242,000 in fiscal 2009 compared to \$237,000 in fiscal 2008.

**Cost of Sales.** Our midstream segment cost of sales increased \$26,000 in fiscal 2009 over the \$397,000 cost of sales for fiscal 2008. This increase is due to increased charges under our operating and maintenance agreement of our U.S. terminals with a third party. That contract is subject to an annual escalation factor during the ten-year primary term of approximately 2.5%.

**Gross Margin.** The midstream segment gross margin in fiscal 2009 increased by \$178,000 over the \$2.7 million margin we realized during fiscal 2008. The increase is due to the effect of increased revenues from increased throughput exceeding the increased costs under the third party operating agreement for the U.S. terminal facilities.

**General and Administrative Expenses.** The general and administrative expenses of our midstream segment increased \$204,000 during fiscal 2009 as compared to fiscal 2008 expenses of \$76,000. This increase is due to the impact of foreign currency transaction exchange gains and losses for our Canadian operation where the Canadian dollar is the functional currency. During fiscal 2008, we realized net currency exchange gains of \$75,000, compared to exchange losses during fiscal 2009 of \$128,000, a net effect of \$203,000.

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**Three Months Ended December 31, 2010 of NGL Energy Partners LP Compared to  
Three Months Ended December 31, 2009 of NGL Supply**

***Items Impacting the Comparability of Our Financial Results***

Our current and future results of operations may not be comparable to the historical results of operations of NGL Supply for the periods presented due to the following reasons:

At December 31, 2010, and for the three month period then ended, our retail propane operations included the retail propane operations that we acquired from Hicksgas in the formation transactions as described above under "Summary Formation Transactions and Partnership Structure." The historical results of operations for NGL Supply do not include these acquired operations.

NGL Supply's historical consolidated financial statements include U.S. federal and state income tax expense. Because we have elected to be treated as a partnership for tax purposes, we are not subject to U.S. federal income tax and certain state income taxes.

After completion of this offering, we anticipate incurring incremental general and administrative expenses of approximately \$1.0 million annually that are attributable to operating as a publicly traded partnership. These expenses will include annual and quarterly reporting; tax return and Schedule K-1 preparation and distribution expenses; Sarbanes-Oxley compliance expenses; expenses associated with listing on the NYSE; independent auditor fees; legal fees; investor relations expenses; registrar and transfer agent fees; director and officer liability insurance costs; and director compensation. These incremental general and administrative expenses are not reflected in the historical consolidated financial statements of NGL Supply.

After we completed the formation transactions, and in accordance with GAAP, the financial statements of NGL Supply became our financial statements for all periods prior to October 1, 2010, the net equity (net book value) of NGL Supply became our equity and the net book value of all of the assets and liabilities of NGL Supply became the accounting basis for our assets and liabilities. We did not record any adjustments to the carryover basis of the assets and liabilities that we acquired from NGL Supply. Consequently, we believe that, other than the impact of the acquisition of Hicksgas (as discussed in the following paragraph), our operations for periods prior to October 1, 2010 would have been comparable to the historical results of operations of NGL Supply.

In connection with our formation transactions, we also acquired the retail propane operations of Hicksgas. This acquisition was accounted for as a business combination, and the assets acquired and liabilities assumed were recorded in our consolidated financial statements at acquisition date fair value. Please see our unaudited pro forma condensed consolidated financial statements, including the unaudited pro forma condensed consolidated statement of operations for the nine months ended December 31, 2010, included elsewhere in this prospectus for additional information related to the acquisition of Hicksgas. In connection with the pro forma presentation of our acquisition of Hicksgas, we made adjustments to the historical results of operations for Hicksgas that consisted primarily of additional depreciation and amortization expense to reflect the increased valuation of the assets that we acquired from Hicksgas. However, we did not make any similar asset or liability basis pro forma adjustments for the formation transactions involving NGL Supply.

In order to present the most meaningful and complete discussion of our results of operations for the nine months ended December 31, 2010, we compare our results of operations for the three months ended December 31, 2010 and the results of NGL Supply for the three months ended December 31, 2009, and the results of operations of NGL Supply for the six months ended September 30, 2010 as compared to the results of operations of NGL Supply for the six months ended September 30, 2009. For our retail propane segment results of operations, our presentation also separately identifies the amount of the change between these periods that is attributable to our acquisition of Hicksgas, which is included in our results of operations for the three months ended December 31, 2010 but not in the historical results of operations of NGL Supply for any period, and the amount of the change that is



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attributable to our pre-existing retail propane operations. We believe that this presentation allows for a reasonable comparison of our continuing results of operations and the historical results of operations of NGL Supply.

### Volumes Sold or Throughput

The following table summarizes the volume of gallons sold by our retail propane and wholesale supply and marketing segments and the throughput volume for our midstream segment for the three months ended December 31, 2010, as compared to the three months ended December 31, 2009:

Segment	Three Months Ended December 31,		Change Resulting From		
	2010	2009	Acquisition of Hicksgas	Change in Pre-Existing Business	
				Volume	Percentage
				(gallons in thousands)	
Retail propane	14,676	4,830	10,795	(949)	(19.6)%
Wholesale supply and marketing	218,254	205,305		12,949	6.3%
Midstream	50,451	62,658		(12,207)	(19.5)%
Total	283,381	272,793	10,795	(207)	(0.1)%

**Retail Propane.** The decrease of 949,000 gallons of retail propane sales during the three months ended December 31, 2010 as compared to the three months ended December 31, 2009 for our pre-existing business (excluding the impact of the Hicksgas acquisition) is due to a decrease in demand for propane to be used for tobacco drying and other agricultural purposes, the effects of conservation resulting from propane price increases and the impact of warmer temperatures in our service areas. During the three months ended December 31, 2010, it was 50% colder in Georgia as compared to the same period in the prior year, but 14% warmer in Kansas, based on heating degree days. Because our sales volumes are greater in Kansas than in Georgia, this resulted in an overall decrease in volumes sold during the period.

**Wholesale Supply and Marketing.** The increase of 12.9 million gallons of wholesale propane and other natural gas liquids sales during the three months ended December 31, 2010 as compared to the same period in 2009 is due primarily to additional term supply contracts that generated more sales in storage.

**Midstream.** The decrease of 12.2 million gallons of terminal throughput is due to a decrease in demand for propane for use in crop drying during the three month period ended December 31, 2010 as compared to the comparable period in 2009.

### Operating Income by Segment

Our operating income by segment is as follows:

Segment	Three Months Ended December 31,		Change Resulting From	
	2010	2009	Acquisition of Hicksgas	Change in Pre-Existing Business
				(in thousands)
Retail propane	\$ 1,517	\$ 408	\$ 1,582	\$ (473)
Wholesale supply and marketing	6,443	5,757		686
Midstream	794	1,136		(342)
Corporate general and administrative expenses	(1,533)	(448)		(1,085)
	\$ 7,221	\$ 6,853	\$ 1,582	\$ (1,214)



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The increase in corporate general and administrative expense during the three months ended December 31, 2010 of \$1.1 million as compared to corporate general and administrative expense of \$0.4 million during the three months ended December 31, 2009 is due primarily to costs incurred related to the combination transactions including the acquisition of Hicksgas. GAAP requires that all costs of this nature are expensed as incurred.

***Retail Propane***

The following table compares the operating results of our retail propane segment for the periods indicated:

	Three Months Ended December 31,		Change Resulting From Acquisition of Hicksgas		Change in Pre-Existing Business
	2010	2009			
	(in thousands)				
Propane sales	\$ 27,810	\$ 7,511	\$ 20,863	\$	(564)
Service and rental income	1,504	440	1,110		(46)
Parts and fittings sales	2,348	294	2,148		(94)
Cost of sales	(20,697)	(5,074)	(15,567)		(56)
Gross margin	10,965	3,171	8,554		(760)
Operating expenses	7,363	2,017	5,603		(257)
General and administrative expenses	650	298	371		(19)
Depreciation and amortization	1,435	448	998		(11)
Segment operating income	\$ 1,517	\$ 408	\$ 1,582	\$	(473)

**Revenues.** Retail propane sales increased a total of \$20.3 million during the three months ended December 31, 2010 as compared to the retail propane sales of \$7.5 million during the same period in 2009 primarily as a result of the impact of the acquisition of Hicksgas. Hicksgas had total propane sales of \$20.9 million during the three months ended December 31, 2010 through sales of 10.8 million gallons at an average sales price of \$1.93 per gallon. Excluding the impact of the operations of Hicksgas, our pre-existing retail propane operations had a decrease in propane sales of \$0.6 million during the three months ended December 31, 2010 as compared to the three months ended December 31, 2009. This decrease is due to a reduction of sales volumes that resulted in a decrease in propane sales of \$1.7 million. The decrease in propane sales from the decreased volumes was partially offset by a \$1.1 million increase in propane sales due to an increase in the average sales price from \$1.56 per gallon for the three months ended December 31, 2009 to \$1.79 per gallon for the three months ended December 31, 2010. The price increase is due to an overall increase in the spot propane price during the three months ended December 31, 2010 as compared to the same period in 2009.

The increase in our other retail propane segment revenues is due to the acquisition of Hicksgas.

**Cost of Sales.** Cost of sales of the retail propane segment increased \$15.6 million during the three months ended December 31, 2010 as compared to cost of sales of \$5.1 million during the three months ended December 31, 2009. This increase in the total segment cost of sales is due almost entirely to the acquisition of the operations of Hicksgas. Cost of propane sales for the Hicksgas operation was \$13.7 million for the three months ended December 31, 2010 consisting of 10.8 million gallons at an average cost of \$1.27 per gallon. Excluding the impact of the Hicksgas operations, the cost of propane sales of our pre-existing business increased by \$0.2 million due primarily to the impact of an increase in the average cost per gallon from \$1.00 per gallon for the three months ended December 31, 2009 to \$1.29 per gallon for the three months ended December 31, 2010. The increase in cost of sales from the other retail propane activities is due primarily to the Hicksgas acquisition.

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**Gross Margin.** The retail propane segment gross margin increased \$7.8 million during the three months ended December 31, 2010 as compared to the gross margin of \$3.2 million during the three months ended December 31, 2009. This increase is due primarily to an increase in gross margin resulting from the Hicksgas operations of \$8.6 million. Excluding the impact on gross margin resulting from the Hicksgas acquisition, the retail propane segment gross margin decreased by approximately \$0.8 million, primarily as a result of the decreased propane sales volumes during the three months ended December 31, 2010 as compared to the same period in 2009 and our inability to pass on fully the propane cost increases during the period due to competitive market pressures.

**Operating Expenses.** Operating expenses of the retail propane segment increased \$5.3 million during the three months ended December 31, 2010 as compared to operating expenses of \$2.0 million for the three months ended December 31, 2009. The increase is due primarily to an increase in operating expenses from the Hicksgas acquisition of \$5.6 million. Excluding the increase in operating expenses resulting from the Hicksgas acquisition, operating expenses of our pre-existing businesses declined \$0.3 million primarily due to a decrease in our insurance expense of \$0.2 million during the three months ended December 31, 2010 as compared to the same period in 2009.

**Operating Income.** Operating income for the retail propane segment increased \$1.1 million during the three months ended December 31, 2010 as compared to operating income of \$0.4 million for the three months ended December 31, 2009. The increase is due primarily to the \$1.6 million of operating income from the Hicksgas acquisition. Operating income of our pre-existing business decreased \$0.5 million during the three months ended December 31, 2010 as compared to the same period in 2009 due to the decrease in gross margin of \$0.8 million, partially offset by the decrease in operating expenses of \$0.3 million.

**Wholesale Supply and Marketing**

The following table compares the operating results of our wholesale supply and marketing segment for the periods indicated:

	Three Months Ended December 31,		Change in Pre-Existing Business
	2010	2009	
	(in thousands)		
Wholesale supply sales	\$ 285,508	\$ 234,432	\$ 51,076
Storage revenues	722	791	(69)
Cost of sales	(278,589)	(228,393)	(50,196)
Gross margin	7,641	6,830	811
Operating expenses	931	726	205
General and administrative expenses	217	261	(44)
Depreciation and amortization	50	86	(36)
Segment operating income	\$ 6,443	\$ 5,757	\$ 686

**Revenues.** Wholesale supply and marketing sales revenues for the three months ended December 31, 2010 increased \$51.1 million as compared to total sales of \$234.4 million during the three months ended December 31, 2009. This increase is due to an increase of \$17.0 million resulting from the increase in wholesale sales volumes of 12.9 million gallons, as discussed above, and an increase of \$34.1 million resulting from an increase in average wholesale sales prices to \$1.31 per gallon during the three months ended December 31, 2010 as compared to \$1.14 per gallon during the same period in 2009. The increase in average sales price is due to the overall increase in the spot price of propane during the period.

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Storage revenues decreased \$0.1 million during the three months ended December 31, 2010 as compared to storage revenues of \$0.8 million during the three months ended December 31, 2009. This decrease in storage revenues is due to a decrease in volumes stored by certain regional cooperative customers.

**Cost of Sales.** The cost of wholesale sales during the three months ended December 31, 2010 increased \$50.2 million as compared to wholesale cost of sales of \$228.4 million during the three months ended December 31, 2009. This increase is due to an increase of \$16.5 million resulting from the increase in volumes sold during the three months ended December 31, 2010 as compared to the same period in 2009 and an increase of \$33.7 million resulting from an increase in the average cost of propane during the period. During the three months ended December 31, 2010, the average cost of propane per gallon sold was \$1.28 compared to \$1.11 during the three months ended December 31, 2009. The increase in propane cost is due to the overall increase in the spot price of propane during the period.

**Gross Margin.** Our wholesale supply and marketing segment gross margin during the three months ended December 31, 2010 increased \$0.8 million as compared to the gross margin of \$6.8 million during the three months ended December 31, 2009. This increase was due to an increase in gross margin of \$0.9 million resulting from the increase in volumes sold during the period, offset by a reduction of \$0.1 million from the decrease in storage revenues during the period. Our gross margin on wholesale sales of propane and other natural gas liquids averaged \$0.03 per gallon during both the three months ended December 31, 2010 and the comparable period in 2009.

**Operating Expenses.** Operating expenses of the wholesale supply and marketing segment during the three months ended December 31, 2010 increased \$0.2 million as compared to operating expenses of \$0.7 million during the three months ended December 31, 2009. This increase is due primarily to an increase in employee compensation and insurance costs resulting from an increase in number of employees and an increase in the utilization of consultants.

**Operating Income.** Operating income of the wholesale supply and marketing segment for the three months ended December 31, 2010 increased \$0.7 million as compared to segment operating income of \$5.7 million for the three months ended December 31, 2009. This increase is due primarily to the increased gross margin from wholesale sales of propane and other natural gas liquids of \$0.8 million during the three months ended December 31, 2010 as compared to the same period in 2009, offset by the increase in operating expenses of \$0.2 million during the period.

### **Midstream**

The following table compares the operating results of our midstream segment for the periods indicated:

	Three Months Ended December 31,		Change in Pre-Existing Business
	2010	2009	
	(in thousands)		
Operating revenues	\$ 1,212	\$ 1,517	\$ (305)
Cost of sales	(154)	(125)	(29)
Gross margin	1,058	1,392	(334)
Other operating expenses	36	18	18
General and administrative expenses	17	28	(11)
Depreciation and amortization	211	210	1
Segment operating income	\$ 794	\$ 1,136	\$ (342)

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**Revenues.** Operating revenues of the midstream segment for the three months ended December 31, 2010 decreased \$0.3 million as compared to operating revenues of \$1.5 million during the three months ended December 31, 2009. This decrease in operating revenues is entirely due to the reduced volume of throughput at our terminals of 12.2 million gallons during the three months ended December 31, 2010 as compared to the same period in 2009.

**Cost of Sales.** Cost of sales of the midstream segment for the three months ended December 31, 2010 increased \$0.03 million as compared to cost of sales of \$0.1 million during the three months ended December 31, 2009. This increase is due to an increase in the monthly fees charged by a third party for the operation of our terminals and certain direct costs related to safety upgrades of the terminals.

**Gross Margin.** Our midstream segment gross margin for the three months ended December 31, 2010 decreased \$0.3 million as compared to gross margin of \$1.4 million during the three months ended December 31, 2009. This decrease is due to the decrease in operating revenues during the period resulting from a decrease in throughput volume as discussed above.

**Operating Income.** Our midstream segment operating income decreased \$0.3 million during the three months ended December 31, 2010 as compared to segment operating income of \$1.1 million during the three months ended December 31, 2009. This decrease in operating income is due to the decrease in gross margin of \$0.3 million, as discussed above.

**Six Months Ended September 30, 2010 Compared to  
Six Months Ended September 30, 2009 for NGL Supply**

**Volumes Sold or Throughput**

The following table summarizes the volume of gallons sold by our retail propane and wholesale supply and marketing segments and the throughput volume for our midstream segment for the six months ended September 30, 2010 and 2009:

Segment	Six Months Ended September 30,		Change	
	2010	2009	In Units	Percent
	(gallons in thousands)			
Retail propane	3,747	3,795	(48)	(1.3)%
Wholesale supply and marketing	258,430	236,951	21,479	9.1%
Midstream	43,704	45,869	(2,165)	(4.7)%
Total	305,881	286,615	19,266	6.7%

Our retail propane volumes decreased 1.3% primarily due to the change in weather conditions. In our Kansas service area, it was 42.3% warmer based on heating degree days during the six months ended September 30, 2010 compared to the same period in 2009. In our Georgia service area, it was approximately 74.6% warmer based on heating degree days than during the same period in 2009. The volume decrease from warmer weather was offset by the increased volume from our Reliance acquisition which was included in our operations for only two months in the full six months in 2009 versus the full six months in 2010.

Our wholesale supply and marketing volumes increased by 21.5 million gallons (9.1%) over the six month 2009 volumes of 236.9 million gallons. Our wholesale supply and marketing volumes include those volumes we sell through transport truck and rail and the volumes we sell at a lesser margin through ownership transfers of propane held in storage to mitigate storage costs for product we are required to purchase during the off season. The overall increase in volumes for the six months ended September 30, 2010 is due to an increase in our product transfer sales. Sales of other natural gas liquids to refiners increased 5.6 million gallons during the six months ended September 30, 2010 compared to

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the same period in 2009, and our propane product transfer sales increased by approximately 25.7 million gallons in the six months ended September 30, 2010 as compared to the comparable six month period in 2009. The increased volumes from product transfer offset the reduction in volume we experienced as a result of the warmer weather conditions in the six month 2010 time period.

Our midstream terminal throughput volumes declined by approximately 2.2 million gallons during the six months ended September 30, 2010 as compared to the same period in 2009. This decrease is due to decreased crop drying demand for propane and a short-term reduction in the volume of available propane supply we could ship through the Blue Line pipeline during the period resulting from the shutdown of a refinery for expansion activities.

### Operating Income by Segment

Our operating income (loss) by segment is as follows for the six months ended September 30, 2010 and 2009:

Segment	Six Months Ended September 30,		
	2010	2009	Change
	(in thousands)		
Retail propane	\$ (2,569)	\$ (1,496)	\$ (1,073)
Wholesale supply and marketing	567	361	206
Midstream	298	492	(194)
Corporate general and administrative expenses	(2,091)	(885)	(1,206)
Total	\$ (3,795)	\$ (1,528)	\$ (2,267)

The increase of \$1.2 million in corporate general and administrative expenses during the six months ended September 30, 2010 is due primarily to compensation expenses and legal and accounting costs incurred in connection with the formation of and contribution of assets to NGL Energy Partners LP.

### Retail Propane

The following table compares the operating results of our retail propane segment for the periods indicated:

	Six Months Ended September 30,		
	2010	2009	Change
	(in thousands)		
Propane sales	\$ 6,128	\$ 5,751	\$ 377
Service and rental income	484	458	26
Parts and fittings sales	256	168	88
Cost of sales	(4,749)	(3,479)	(1,270)
Gross margin	2,119	2,898	(779)
Operating expenses	3,330	3,037	293
General and administrative expenses	488	501	(13)
Depreciation and amortization	870	856	14
Segment operating income	\$ (2,569)	\$ (1,496)	\$ (1,073)

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*Revenues.* Our retail propane sales for the six months ended September 30, 2010 increased \$377,000 over the sales for the six months ended September 30, 2009 of \$5.8 million. This increase is



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due primarily to higher sales prices, offset by reductions in our sales volume due to warmer weather. During the six month 2010 time period, our average sales price was \$1.64 per gallon, compared to the average sales price of \$1.52 per gallon in the six month 2009 time period. This increase is due primarily to the increase in the spot propane prices during the six months ended September 30, 2010. For the Conway, Kansas propane hub, for example, the propane spot price at September 30, 2010 was \$1.1625 per gallon, compared to the March 31, 2010 closing price of \$1.0625 per gallon and \$0.875 per gallon at September 30, 2009. The impact of this price increase was an increase of \$455,000 in our propane sales revenue for the period. The decrease in our retail propane sales volume resulted in a decrease in our revenue of approximately \$78,000.

The increased service revenues and sales of parts and fittings are due to the 2009 Reliance acquisition being included for only two months in the full six months in 2009 as compared to the full six months in 2010.

**Cost of Sales.** Our retail propane segment total cost of sales increased \$1.3 million during the six months ended September 30, 2010, due primarily to an increase of \$1.1 million in our cost of propane sales and a \$0.2 million increase in other costs of sales.

The cost of propane sales for the six month period in 2010 was \$4.5 million, compared to \$3.4 million for the same period in 2009, an increase of \$1.1 million. This increase is due primarily to the increase in propane prices. Our cost of propane sales for the six month period ended September 30, 2010 was \$1.20 per gallon, compared to \$0.90 per gallon during the same period in 2009.

**Gross Margin.** Our retail propane segment gross margin decreased \$779,000 during the six months ended September 30, 2010 as compared to our gross margin of \$2.9 million during the same period in 2009. This decrease is due primarily to our inability to pass on to our customers the full effect of the increase in propane prices during the period. Our gross margin per gallon for the six month period in 2010 was \$0.44, compared to \$0.62 for the same period in 2009. This resulted in a decrease of \$670,000 in our gross margin. Decreased volumes resulted in a decrease in our gross margin of \$30,000.

**Operating Expenses.** Operating expenses of the retail propane segment increased \$293,000 during the six months ended September 30, 2010 as compared to the same period in 2009. This increase is due primarily as a result of the Reliance acquisition in August 2009. That acquisition was included in our six month 2009 operations for two months as compared to the full six months in 2010. The increase results from increased compensation costs and vehicle expenses.

**Wholesale Supply and Marketing**

The following table compares the operating results of our wholesale supply and marketing segment for the periods indicated:

	<b>Six Months Ended September 30,</b>			
	<b>2010</b>	<b>2009</b>	<b>Change</b>	
	<b>(in thousands)</b>			
Wholesale supply sales	\$ 315,364	\$ 195,666	\$ 119,698	
Storage revenues	959	1,187	(228)	
Cost of sales	(313,259)	(194,409)	(118,850)	
Gross margin	3,064	2,444	620	
Operating expenses	1,859	1,444	415	
General and administrative expenses	540	468	72	
Depreciation and amortization	98	171	(73)	
Segment operating income	\$ 567	\$ 361	\$ 206	

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*Revenues.* Wholesale supply and marketing sales revenues for the six months ended September 30, 2010 increased \$119.7 million over the revenues for the six months ended September 30, 2009 of \$195.7 million. This increase is due to the impact of both increased volume and average sale price per gallon sold. Our volumes increased by 21.5 million gallons. This increase resulted in an increase in our sales revenues of approximately \$26.2 million. Our average sales price was \$1.22 per gallon for the 2010 time period, compared to \$0.83 per gallon for the same six month period in 2009. The increase was due to the overall increase in the spot propane prices in the six months ended September 30, 2010. The sales price increase resulted in an increase in our wholesale supply and marketing segment revenue of approximately \$93.5 million.

Our storage revenues for the six months ended September 30, 2010 decreased \$228,000 from our storage revenues of \$1.2 million during the same time period in 2009. This decrease is primarily due to the impact of two of our wholesale customers executing fewer pre-sale agreements during 2010 as compared to their 2009 activity. This resulted in fewer volumes of propane in storage for customers, and therefore, reduced storage revenues.

*Cost of Sales.* Our wholesale supply and marketing segment cost of sales increased \$118.8 million during the six months ended September 30, 2010 as compared to our cost of sales of \$194.4 million during the same period in 2009. This increase is also due to the impact of increased volumes and the increase in the spot price of propane during the period. The increased volumes resulted in an increase to our cost of sales of \$26.0 million. The spot propane price increase resulted in an increased cost of sales of \$92.8 million. On a per gallon basis, our cost of sales was \$1.21 for the 2010 time period, compared to \$0.82 in the same six month period in 2009, an increase of \$0.39 per gallon. This increase was equal to the per gallon increase in our sales price in 2010 as compared to 2009.

*Gross Margin.* Overall for the six months ended September 30, 2010, our wholesale supply and marketing segment gross margin increased \$620,000 over our margin of \$2.4 million during the six months ended September 30, 2009. This margin increase consisted of an increased margin from sales revenues of \$848,000, reduced by a reduction in our storage revenues of \$228,000. The increased margin from propane sales was due to increased volume. Our margin per gallon averaged \$.01 for both periods as we were able to successfully pass on to our wholesale customers the impact of the increase in the spot propane price during the 2010 time period.

*Operating Expenses.* Our wholesale supply and marketing operating expenses increased \$415,000 during the six months ended September 30, 2010 as compared to the same period in 2009. This increase is due primarily to an increase in compensation and other related personnel costs from an increase of our personnel and the increased use of outside consultants for our wholesale operations.

*General and Administrative Expenses.* Our wholesale supply and marketing segment general and administrative expenses increased \$72,000 during the six months ended September 30, 2010 as compared to the same period in 2009 due to an increase in taxes other than income of \$99,000, reduced by a decrease in general office expenses of \$27,000.

*Depreciation and Amortization.* The decrease of \$73,000 in depreciation and amortization expense of the wholesale supply and marketing segment during the six months ended September 30, 2010 is due to the impact of an insignificant change in estimate recorded during the six months ended September 30, 2009.

Table of Contents**Midstream**

The following table compares the operating results of our midstream segment for the periods indicated:

	<b>Six Months Ended September 30,</b>		
	<b>2010</b>	<b>2009</b>	<b>Change</b>
	<b>(in thousands)</b>		
Operating revenues	\$ 1,046	\$ 1,106	\$ (60)
Cost of sales	(194)	(192)	(2)
<b>Gross margin</b>	<b>852</b>	<b>914</b>	<b>(62)</b>
Other operating expenses	42	33	9
General and administrative expenses	91	(26)	117
Depreciation and amortization	421	415	6
<b>Segment operating income</b>	<b>\$ 298</b>	<b>\$ 492</b>	<b>\$ (194)</b>

**Revenues.** Operating revenues of our midstream segment decreased \$60,000 during the six months ended September 30, 2010 as compared to the same period in 2009. This reduction is due to the reduced throughput volumes at our terminals.

**Gross Margin.** The reduction of \$62,000 in our midstream segment gross margin is due to the effect of reduced throughput volumes during the six months ended September 30, 2010 as compared to the same period in 2009.

**General and Administrative Expenses.** Our midstream segment general and administrative expenses increased \$117,000 during the six months ended September 30, 2010 as compared to the same period in 2009 due to the foreign currency transaction losses realized during that period of \$8,000, as compared to foreign currency transaction gains realized in 2009 of \$101,000, an increased expense of \$119,000.

**Segment Operating Income.** Operating income of our midstream segment decreased from \$492,000 during the six months ended September 30, 2009 to \$298,000 during the same period in 2010. This decrease is due to the impact of reduced revenues from the decrease in our terminal throughput volume and the impact of foreign currency transaction losses realized in our Canada terminal operations.

**Seasonality**

Seasonality impacts all of our segments, but the most significant impact is on our retail propane segment. A large portion of our retail propane operation is in the residential market where propane is used primarily for heating. During the three-year period ended March 31, 2010, approximately 75% of our retail propane volume was sold during the peak heating season from October through March. Consequently, sales, operating profits and positive operating cash flows are generated mostly in the third and fourth quarters of each fiscal year. We have historically realized operating losses and negative operating cash flows during our first and second fiscal quarters. See "Liquidity, Sources of Capital and Capital Resource Activities Cash Flows."

**Liquidity, Sources of Capital and Capital Resource Activities**

Our principal sources of liquidity and capital are the cash flows from our operations and borrowings under our revolving credit facility. Our cash flows from operations are discussed below.

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Our borrowing needs vary significantly during the year due to the seasonal nature of our business. Our greatest borrowing needs occur during the period of April through September, the periods when the cash flows from our retail and wholesale propane operations are reduced. Our needs also increase during those periods when we are building our physical propane inventories in anticipation of the heating season and to help us establish a fixed margin for a percentage of our wholesale and retail sales under fixed price sales agreements. Our borrowing needs decline during the period of October through March when the cash flows from our retail and wholesale propane operations are the greatest.

Under our partnership agreement, we are required to make distributions in an amount equal to all of our available cash, if any, no more than 45 days after the end of each fiscal quarter to holders of record on the applicable record dates. Available cash generally means all cash on hand at the end of the respective fiscal quarter less the amount of cash reserves established by our general partner in its reasonable discretion for future cash requirements. These reserves are retained for the proper conduct of our business, debt principal and interest payments and for distributions to our unitholders during the next four quarters. Our general partner reviews the level of available cash on a quarterly basis based upon information provided by management.

Following this offering, we believe that our anticipated cash flows from operations and the borrowing capacity under our revolving credit facility will be sufficient to meet our liquidity needs for the next 12 months. If our plans or assumptions change or are inaccurate, or if we make acquisitions, we may need to raise additional capital. While global financial markets and economic conditions have been disrupted and volatile in the past, the conditions have improved recently. However, we cannot give any assurances that we can raise additional capital to meet these needs. Commitments or expenditures, if any, we may make toward any acquisition projects are at our discretion.

***Revolving Credit Facility***

On October 14, 2010, we and our subsidiaries entered into a revolving credit facility. The revolving credit facility, as amended through April 2011, provides for a total credit facility of \$200.0 million, represented by a \$50.0 million working capital facility and a \$150.0 million acquisition facility. Borrowings under the working capital facility are subject to a defined borrowing base. The borrowing base is determined in part by reference to certain trade position reports and mark-to-market reports delivered to the administrative agent and is subject to immediate adjustment for reductions in certain components of those reports. A reduction to the borrowing base could require us to repay indebtedness in excess of the borrowing base. The working capital facility allows for letter of credit advances of up to \$50.0 million and swingline loans of up to \$5.0 million.

Our revolving credit facility has a final maturity on October 14, 2014. In addition to customary mandatory prepayment restrictions, we must (i) once a year, between March 31 and September 30, prepay the outstanding working capital revolving loans and collateralize outstanding letters of credit in order to reduce the total working capital borrowings to less than \$10.0 million for 30 consecutive days and (ii) until this offering is complete, on or before October 14 each year, we must repay outstanding principal amounts of the acquisition revolving loans by at least \$7.5 million.

Borrowings under our revolving credit facility bear interest at designated interest rates depending on the computed "leverage ratio," which is the ratio of total indebtedness (as defined) at any determination date to consolidated EBITDA for the period of the four fiscal quarters most recently ended. Interest is payable quarterly. The initial interest rates vary at LIBOR plus 3% to 3.75% for any LIBOR borrowings and the bank's prime rate plus 2% to 2.75% for any base rate borrowings, in each case depending upon the leverage ratio. The interest rate increments will be adjusted upward by 0.25% in the event we have not completed a public or private equity offering of at least \$50.0 million prior to April 15, 2011. In addition, we are also required to pay a 0.5% commitment fee on the average unused commitment.

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Our revolving credit facility contains various covenants limiting our ability to (subject to certain exceptions), among other things:

incur other indebtedness (other than permitted debt as defined in the credit facility);

grant or incur liens on our property;

create or incur any contingent obligations;

make investments, loans and acquisitions;

enter into a merger, consolidation or sale of assets;

change the nature of our business or change the name or place of our business;

pay dividends or make distributions if we are in default under the revolving credit facility or in excess of available cash; and

prepay, redeem, defease or otherwise acquire any permitted subordinated debt or make certain amendments to permitted subordinated debt.

Our revolving credit facility further indicates that our "leverage ratio" cannot exceed 4.25 to 1.0 at any quarter end. This limit will vary based on whether we complete a public or private equity offering. At December 31, 2010, our ratio of total funded debt to consolidated EBITDA was 3.15 to 1.0.

Our revolving credit facility includes customary events of default. At December 31, 2010, we were in compliance with all debt covenants to our credit facilities.

### **Cash Flows**

The following summarizes the sources of our cash flows for the periods indicated:

	NGL Supply			NGL Energy Partners LP		NGL Supply		
	For the Year Ended			Three Months Ended	Three Months Ended	Six Months Ended	Six Months Ended	
	March 31,			December 31,	December 31,	September 31,	September 30,	
Cash Flows Provided by (Used In):	2010	2009	2008	2010	2009	2010	2009	
	(in thousands)							
Operating activities, before changes in operating assets and liabilities	\$ 9,036	\$ 16,598	\$ 4,840	\$ 7,648	\$ 6,520	\$ (3,116)	\$ (90)	
Changes in operating assets and liabilities	(1,556)	5,861	(15,771)	(7,505)	2,759	(27,770)	(20,011)	
Operating activities	\$ 7,480	\$ 22,459	\$ (10,931)	\$ 143	\$ 9,279	\$ (30,886)	\$ (20,101)	
Investing activities	(2,833)	(3,281)	(6,242)	(17,240)	328	174	(2,308)	
Financing activities	(834)	(7,117)	12,283	18,885	(7,285)	10,457	6,996	

**Operating Activities.** The seasonality of our retail propane business, and to an extent, our wholesale supply and marketing business, has a significant effect on our cash flows from operating activities. The changes in our operating assets and liabilities caused by the seasonality of our retail and wholesale propane business also have a significant impact on our net cash flows from operating activities, as is demonstrated in the table above. Increases in propane prices will tend to result in reduced operating cash flows due to the need to use more cash to fund increases in propane inventories, and propane price decreases tend to increase our operating cash flow due to lower cash requirements to fund increases in

propane inventories.

In general, our operating cash flows are greatest during our third and fourth fiscal quarters when our operating income levels are highest and customers pay for propane consumed during the heating season months. Conversely, our operating cash flows are generally at their lowest levels during our first and second fiscal quarters, or the six months ending September 30, when we are building our inventory levels for the upcoming heating season. We will generally borrow under our revolving credit facility to

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supplement our operating cash flows as necessary during our first and second quarters. The table above reflects the general trend in each of the periods with the exception of fiscal 2008. During that fiscal year, we experienced a decline in our operating cash flows that was due in a large part to the impact of the significant, and rapid, increase in propane prices during the period of October 2007 through February 2008, which resulted in a build-up of our receivables and inventory levels. Propane prices declined significantly during the period of August 2008 to December 2009, which resulted in a substantial improvement in our operating cash flows as a result of less cash requirements to fund changes in working capital, primarily accounts receivable and inventories. This resulted in a significant increase in our operating cash flows for fiscal 2009 and an improvement in our cash flows from operating activities during the three months ended December 31, 2009 as compared to the operating cash flows during the three months ended December 31, 2010.

*Investing Activities.* Our cash flows from investing activities are primarily impacted by our capital expenditures. In periods where we are engaged in significant acquisitions, such as during each of our fiscal years 2008 through 2010, the six months ended September 30, 2009, and the three months ended December 31, 2010, we will generally realize negative cash flows in investing activities, which, depending on our cash flows from operating activities, may require us to increase the borrowings under our revolving credit facility, such as during fiscal 2008, during the three months ended December 31, 2010 and the six months ended September 30, 2010 and 2009. However, we were able to reduce our net borrowings during fiscal 2009 because of the significant increase in our operating cash flows.

*Financing Activities.* Changes in our cash flow from financing activities historically have been due to advances from and repayments of our revolving credit facility, either to fund our operating or investing requirements. In periods where our cash flows from operating activities are reduced (such as during our first and second quarters), we fund the cash flow deficits through our revolving credit facility. Cash flows required by our investing activities in excess of cash available through our operating activities have historically been funded by our acquisition credit facility. In the table above, we had positive cash flows from financing activities due to the increase in our debt levels to fund our negative cash flows from operating activities during fiscal 2008 and during the three months ended December 31, 2010 and the six months ended September 30, 2010 and 2009. We were able to reduce our debt levels during fiscal 2009 and the three months ended December 31, 2009 due to the substantial increase in our operating cash flows.

With the exception of the six months ended September 30, 2010 and the three months ended December 31, 2010, our financing cash flows to fund distributions to our shareholders were not substantial. We made distributions to our preferred stockholder each year as required. We made a \$7.0 million distribution to the owners of our common stock during the six months ended September 30, 2010 in advance of our formation transactions. We made a distribution of \$40.0 million to the shareholders of NGL Supply during the three months ended December 31, 2010. Such distributions and the negative cash flows realized from our operating activities for such time period required us to increase our borrowings under our revolving credit facility. We expect our distributions to owners to increase in future periods under the terms of our partnership agreement. To the extent our cash flows from operating activities are not sufficient to finance our required distributions, we may be required to increase the borrowings under our revolving credit facility.

Table of Contents**Contractual Obligations**

The following table summarizes our contractual obligations as of December 31, 2010 for the remainder of our fiscal year ending March 31, 2011 and our fiscal years ending thereafter:

	For the Years Ending March 31,					After March 31,
Total	2011	2012	2013	2014	2014	
(in thousands)						
Debt principal payments						
Acquisition advances(1)	\$ 68,000	\$	\$	\$	\$	\$ 68,000
Working capital advances(2)	8,500		8,500			
Other long-term debt	1,372		830	452	90	
Scheduled interest payments on acquisition facility(1)	14,818	978	3,910	3,910	3,910	2,110
Capital lease obligations	551	32	129	130	130	130
Standby letters of credit(3)	14,704	14,704				
Future estimated payments under terminal operating agreements	2,340	132	368	368	368	1,104
Storage leases	541	108	433			
Future minimum lease payments under other noncancelable operating leases	2,073	168	654	654	597	
Fixed price commodity purchase commitments(4)	56,522	43,846	12,676			
Index priced commodity purchase commitments(4)(5)	122,449	63,779	58,670			
<b>Total contractual obligations</b>	<b>\$ 291,870</b>	<b>\$ 123,747</b>	<b>\$ 86,170</b>	<b>\$ 5,514</b>	<b>\$ 5,095</b>	<b>\$ 71,344</b>
Gallons under fixed-price commitments	46,326	34,986	11,340			
Gallons under index-price commitments	97,755	46,744	51,011			

- (1) The scheduled estimated principal and interest payments on our revolving credit facility are based on the terms of the agreement and on our average interest rate of 5.75% at December 31, 2010. Under the terms of our revolving credit facility, if we have not completed an equity offering prior thereto, beginning in October 2011, we will be required to make annual payments of \$7.5 million on our acquisition facility borrowings and will be subject to an increase in interest rates. See Note 7 to our unaudited condensed consolidated financial statements as of December 31, 2010 included elsewhere herein. We are also required to pay a 0.5% commitment fee on the average unused commitment.
- (2) Once each year, between March 31 and September 30, we are required to prepay borrowings under our working capital facility to reduce the outstanding borrowings to less than \$10.0 million for 30 consecutive days. At December 31, 2010, we had working capital borrowings of \$18.5 million at an interest rate of 5.75%.
- (3) Includes \$14.0 million of letters of credit which settled in January 2011.
- (4) At December 31, 2010, we had fixed priced and index priced sales contracts for approximately 72.6 million and 4.3 million gallons of propane, respectively.
- (5) Index prices are based on a forward price curve as of December 31, 2010. A theoretical change of \$0.10 per gallon in the underlying commodity price at December 31, 2010 would result in a change of approximately \$9.8 million in the value of our index-based purchase commitments.



**Off-Balance Sheet Arrangements**

We do not have any off-balance sheet arrangements that are expected to have an impact on our financial condition or results of operations other than the operating leases we have executed.

**Environmental Legislation**

Please see "Business Government Regulation Greenhouse Gas Regulation" for a discussion of proposed environmental legislation and regulations that, if enacted, could result in increased compliance and operating costs. However, at this time we cannot predict the structure or outcome of any future legislation or regulations or the eventual cost we could incur in compliance.

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**Recent Accounting Pronouncements**

FASB Accounting Standards Codification Subtopic 260-10, or ASC 260-10, originally issued as FSP EITF Issue No. 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities," was ratified in June 2008 and applies to the calculation of earnings per share. ASC 260-10 states that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method. We adopted ASC 260-10 in our fiscal year 2010. The adoption of ASC 260-10 did not have a significant impact on our earnings per share calculation since we did not have any share-based compensation awards that represented "participating securities."

**Critical Accounting Policies**

The preparation of financial statements and related disclosures in compliance with GAAP requires the selection and application of appropriate accounting principles to the relevant facts and circumstances of the Partnership's operations and the use of estimates made by management. We have identified the following critical accounting policies that are most important to the portrayal of our financial condition and results of operations. Changes in these policies could have a material effect on the financial statements. The application of these accounting policies necessarily requires our most subjective or complex judgments regarding estimates and projected outcomes of future events which could have a material impact on the financial statements.

***Revenue Recognition***

Sales of propane and other natural gas liquids in our retail propane and wholesale supply and marketing operations are recognized at the time product is shipped or delivered to the customer. Revenue from the sale of propane fittings and parts is recognized at the later of the time of sale or installation. Propane service revenues are recognized upon completion of the service. Tank rental revenues are recognized over the period of the rental. Storage revenue is recognized during the period in which storage services are provided. Terminal operating revenues are recorded at the point of product throughput.

***Impairment of Goodwill and Long-Lived Assets***

Goodwill is subject to at least an annual assessment for impairment by applying a fair-value-based test. Additionally, an acquired intangible asset should be separately recognized if the benefit of the intangible asset is obtained through contractual or other legal rights, or if the intangible asset can be sold, transferred, licensed, rented or exchanged, regardless of the acquirer's intent to do so.

We perform our annual assessment of impairment during the fourth quarter of our fiscal year, and more frequently if circumstances warrant. We completed the valuation of each of our reporting units and determined no impairment existed as of March 31, 2010. The valuation of our reporting units requires us to make certain assumptions as relates to future operations. When evaluating operating performance, various factors are considered such as current and changing economic conditions and the commodity price environment, among others. If the growth assumptions embodied in the current year impairment testing prove inaccurate, we could incur an impairment charge. A 57% decrease in the estimated future cash flows and a 12% increase in the discount rate used in our impairment analysis would not have indicated a potential impairment of any of our intangible assets. To date, we have not recognized any impairment on assets we have acquired.

***Asset Retirement Obligation***

We are required to recognize the fair value of a liability for an asset retirement obligation when it is incurred (generally in the period in which we acquire, construct or install an asset) if a reasonable estimate of fair value can be made. If a reasonable estimate cannot be made in the period the asset

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retirement obligation is incurred, the liability should be recognized when a reasonable estimate of fair value can be made.

In order to determine fair value of such liability, we must make certain estimates and assumptions including, among other things, projected cash flows, a credit-adjusted risk-free interest rate and an assessment of market conditions that could significantly impact the estimated fair value of the asset retirement obligation. These estimates and assumptions are very subjective and can vary over time.

We have determined that we are obligated by contractual or regulatory requirements to remove certain of our assets or perform other remediation of the sites where such assets are located upon the retirement of those assets. However, the fair value of our asset retirement obligation cannot currently be reasonably estimated because the settlement dates are indeterminate. We will record an asset retirement obligation in the periods in which we can reasonably determine the settlement dates.

***Depreciation Methods and Estimated Useful Lives of Property, Plant and Equipment***

Depreciation expense represents the systematic and rational write-off of the cost of our property and equipment, net of residual or salvage value (if any), to the results of operations for the quarterly and annual periods the assets are used. We depreciate the majority of our property and equipment using the straight-line method, which results in our recording depreciation expense evenly over the estimated life of the individual asset. The estimate of depreciation expense requires us to make assumptions regarding the useful economic lives and residual values of our assets. At the time we acquire and place our property and equipment in service, we develop assumptions about such lives and residual values that we believe are reasonable; however, circumstances may develop that could require us to change these assumptions in future periods, which would change our depreciation expense amounts prospectively. Examples of such circumstances include changes in laws and regulations that limit the estimated economic life of an asset; changes in technology that render an asset obsolete; or changes in expected salvage values.

The net book value of NGL Supply's property, plant and equipment was \$28.7 million and \$27.8 million at March 31, 2010 and 2009, respectively, and \$27.9 million at September 30, 2010. The net book value of our property, plant and equipment was \$63.0 million at December 31, 2010. We recorded depreciation expense of \$2.2 million, \$1.8 million and \$1.4 million for the years ended March 31, 2010, 2009 and 2008, respectively, \$1.4 million and \$0.6 million for the three months ended December 31, 2010 and 2009, respectively, and, \$1.0 million and \$1.0 million for the six months ended September 30, 2010 and 2009, respectively.

For additional information regarding our property and equipment, see Notes 2 and 6 of the Notes to Consolidated Financial Statements for our March 31, 2010 consolidated financial statements and Note 5 of our December 31, 2010 consolidated financial statements included elsewhere in this prospectus.

***Business Combinations***

We have made in the past, and expect to make in the future, acquisitions of other businesses. In accordance with generally accepted accounting principles for business combinations, we recorded business combinations using a method known as the "acquisition method" in which the various assets acquired and liabilities assumed are recorded at their estimated fair value. Fair values of assets acquired and liabilities assumed are based upon available information and may involve us engaging an independent third party to perform an appraisal. Estimating fair values can be complex and subject to significant business judgment. We must also identify and include in the allocation all tangible and intangible assets acquired that meet certain criteria, including assets that were not previously recorded by the acquired entity. The estimates most commonly involve property and equipment and intangible assets, including those with indefinite lives. The excess of purchase price over the fair value of acquired assets is recorded as goodwill which is not amortized but reviewed annually for impairment. Generally, we

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have, if necessary, up to one year from the acquisition date to finalize the purchase price allocation. The impact of subsequent changes to the identification of assets and liabilities may require a retroactive adjustment to previously reported financial position and results of operations.

***Inventory***

Our inventory consists primarily of propane inventory we hold in storage facilities or in various common carrier pipelines. We value our inventory at the lower of cost or market, and our cost is determined based on the weighted average cost method. There may be periods during our fiscal year where the market price for propane on a per gallon basis would be less than our average cost. However, the accounting guidelines do not require us to record a writedown of our inventory at an interim period if we believe that the market values will recover by our year end of March 31. Propane prices fluctuate year to year, and during the interim periods within a year. Historically, the market prices as of March 31 have been in excess of our average cost. At March 31, 2009, however, due to the significant volatility of the propane market during fiscal 2008 and 2009, the market price per gallon was substantially less than the recorded average cost per gallon. As a result, we were required to record a writedown of our inventory, and such writedown was approximately \$5.4 million, compared to a writedown we recorded at March 31, 2010 of \$321,000. We are unable to control changes in the market value of propane and are unable to determine whether writedowns will be required in future periods. In addition, writedowns at interim periods could be required if we cannot conclude that market values will recover sufficiently by our year end.

***Product Exchanges***

In our wholesale supply and marketing business, we frequently have exchange transactions with suppliers or customers in which we will deliver product volumes to them, or receive product volumes from them to be delivered back to us or from us in future periods, generally in the short-term (referred to as "product exchanges"). The settlements of exchange volumes are generally done through in-kind arrangements whereby settlement volumes are delivered at no cost, with the exception of location differentials. Such in-kind deliveries are ongoing and can take place over several months. We estimate the value of our current product exchange assets and liabilities using period end spot market prices plus or minus location differentials, which we believe represents the value of the exchange volumes at such date. Changes in product prices could impact our estimates.

**Quantitative and Qualitative Disclosures about Market Risk**

***Interest Rate Risk***

As of December 31, 2010, substantially all of our long-term debt is variable-rate debt. Changes in interest rates impact the interest payments of our variable-rate debt but generally do not impact the fair value of the liability. Conversely, changes in interest rates impact the fair value of fixed-rate debt but do not impact their cash flows.

Our revolving credit facility is variable-rate debt with interest rates that are generally indexed to bank prime or LIBOR interest rates. As of December 31, 2010, we have outstanding borrowings of approximately \$68.0 million of acquisition advances under our revolving credit facility at an average interest rate of 5.75%, and \$18.5 million of working capital advances at an average interest rate of 5.75%. A change in interest rates of 0.125% would result in an increase or decrease of our annual interest expense of approximately \$108,000.

We have entered into two interest rate swap agreements to hedge the risk of interest rate fluctuations on our long term debt. These agreements convert a portion of our revolving credit facility floating rate debt into fixed rate debt on notional amounts of \$4.0 million and \$8.5 million and end on March 14, 2011 and June 30, 2013, respectively. The notional amounts of derivative instruments do not represent actual amounts exchanged between the parties, but instead represent amounts on which the contracts

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are based. The floating interest rate payments under these swaps are based on three-month LIBOR rates. We do not account for these agreements as hedges. At December 31, 2010, the fair value of these hedges was a liability of approximately \$0.4 million and is recorded as accrued liabilities in our consolidated balance sheet.

***Commodity Price and Credit Risk***

Our operations are subject to certain business risks, including commodity price risk and credit risk. Commodity price risk is the risk that the market value of propane and other natural gas liquids will change, either favorably or unfavorably, in response to changing market conditions. Credit risk is the risk of loss from nonperformance by suppliers, customers or financial counterparties to a contract.

We take an active role in managing and controlling commodity price and credit risks and have established control procedures, which we review on an ongoing basis. We monitor commodity price risk through a variety of techniques, including daily reporting of price changes to senior management. We attempt to minimize credit risk exposure through credit policies and periodic monitoring procedures as well as through customer deposits, restrictions on propane liftings, letters of credit and entering into netting agreements that allow for offsetting counterparty receivable and payable balances for certain financial transactions, as deemed appropriate. The principal counterparties associated with our operations as of March 31, 2010 and 2009 and December 31, 2010 were propane retailers, resellers, energy marketers, producers, refiners and dealers.

The propane industry is a "margin-based" and "cost-plus" business in which gross profits depend on the differential of sales prices over supply costs. As a result, our profitability will be sensitive to changes in wholesale prices of propane caused by changes in supply or other market conditions. When there are sudden and sharp increases in the wholesale cost of propane, we may not be able to pass on these increases to our customers through retail or wholesale prices. Propane is a commodity and the price we pay for it can fluctuate significantly in response to supply or other market conditions. We have no control over supply or market conditions. In addition, the timing of cost increases can significantly affect our realized margins. Sudden and extended wholesale price increases could reduce our gross margins and could, if continued over an extended period of time, reduce demand by encouraging our retail customers to conserve or convert to alternative energy sources.

We have engaged in derivative financial and other risk management transactions in the past, including various types of forward contracts, options, swaps and future contracts, to reduce the effect of price volatility on our product costs, protect the value of our inventory positions and to help ensure the availability of propane during periods of short supply. We attempt to balance our contractual portfolio by purchasing volumes when we have a matching purchase commitment from our wholesale and retail customers. We may experience net unbalanced positions from time to time which we believe to be immaterial in amount. In addition to our ongoing policy to maintain a balanced position, for accounting purposes we are required, on an ongoing basis, to track and report the market value of our derivative portfolio.

Although we use derivative commodity instruments to reduce the market price risk associated with forecasted transactions, we have not accounted for such derivative commodity instruments as hedges. In addition, we do not use such derivative commodity instruments for speculative or trading purposes. As of December 31, 2010, the fair value of our unsettled commodity derivative instruments was a liability of approximately \$20,000. A hypothetical change of 10% in the market price of propane would result in a decrease in the fair value of such derivative commodity instruments of approximately \$200,000. We record the changes in fair value of these derivative commodity instruments as cost of sales of our wholesale supply and marketing segment.

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***Fair Value***

The fair value of our open financial derivative contracts related to commodity price risk as of March 31, 2010, was an asset of \$576,000 included in other current assets. The values of our open derivative commodity instruments and interest rate swap contracts at December 31, 2010 was a liability of \$20,000 and \$0.4 million, respectively. See Note 11 to our unaudited condensed financial statements as of December 31, 2010 included elsewhere in this prospectus for additional information.

We use observable market values for determining the fair value of our trading instruments. In cases where actively quoted prices are not available, other external sources are used which incorporate information about commodity prices in actively quoted markets, quoted prices in less active markets and other market fundamental analysis.

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**INDUSTRY**

Propane is a clean-burning energy source recognized for its transportability and ease of use relative to alternative stand-alone energy sources. Propane competes primarily with natural gas, electricity and fuel oil as an energy source principally on the basis of price, availability and portability.

Propane can be either a liquid or a gas, depending on temperature and pressure. At normal atmospheric pressure and temperature, propane is a non-toxic, colorless and odorless gas. Under moderate pressure, propane becomes a liquid that vaporizes into a clean-burning gas when released from storage. An odorant, most often ethyl mercaptan, is added to commercial grade propane so that it can be readily detected in the event of a leak.

**Production**

Propane is extracted from natural gas or oil wellhead gas at processing plants, separated from natural gas liquids at fractionation facilities or separated from crude oil during the refining process. About 90% of the propane that is consumed in the United States is produced at processing plants, fractionation facilities and refineries located in the United States. The remainder is imported, primarily from Canada via pipeline and rail car and from the North Sea, East Africa and the Middle East via ocean-going tanker.

**Transportation and Storage**

Propane is transported from processing plants, fractionation facilities and refineries by pipeline, rail car, truck or ship to terminals and storage facilities. The primary mode of transporting propane within the United States is through approximately 70,000 miles of interstate pipelines. The pipeline system is most developed along the East Coast and the corridors between producing areas and petrochemical consumers along the Gulf Coast and the agricultural and industrial consumers in the Midwest. The upper Midwest is also served by two pipelines from Canada. Other modes of transportation include approximately 22,000 rail cars, 6,000 bulk highway transport trucks, 18,000 local bulk delivery trucks, 60 inland waterway barges, and several ocean-going tankers. Propane is usually transported and stored in a liquid state under moderate pressure or refrigeration for ease of handling in shipping and distribution.

Terminal operators and wholesalers own, lease or have access to propane storage facilities that receive supplies via pipeline, rail car, truck or ship. Generally, propane storage inventories increase during the spring and summer months for delivery to customers during the fall and winter heating season when propane demand is typically at its peak.

There are three basic categories of storage for propane inventories: primary, secondary and tertiary. Primary storage consists of refinery, gas plant, pipeline and bulk terminal inventories held in propane storage facilities generally located near the major natural gas liquids production, processing and transportation hubs. These facilities usually consist of above-ground storage tanks, pressurized mines and underground salt caverns and are located primarily in Conway, Kansas and Mont Belvieu, Texas. Primary propane storage facilities are typically connected directly to major natural gas liquids pipelines and are capable of maintaining high delivery rates during peak demand periods.

Secondary storage consists primarily of large above-ground tanks with propane storage capacity ranging from 5,000 to 30,000 gallons located at propane retailers across the United States. Tertiary storage consists of small above-ground tanks that typically have propane storage capacity ranging from 100 to 1,000 gallons located mostly at the point of consumption at residences, commercial establishments and other end user locations.

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**Distribution**

Propane is supplied by wholesalers to retailers to be sold to various end users. At the direction of wholesalers, propane is transferred from a pipeline, rail car or marine terminal to customers' transport trucks or is stored in tanks located at propane terminals or in off-site storage facilities for future delivery to customers. Most propane terminals and storage facilities have a transport truck loading facility. Typically, retailers rely on independent trucking companies to pick up propane at the loading facility and transport it to secondary storage at the retailer's location. The capacity of transport trucks generally ranges from 9,500 to 12,500 gallons of propane.

Locally, propane retailers fill their bulk delivery trucks from their secondary storage. The capacity of bulk delivery trucks generally ranges from 2,400 to 3,500 gallons of propane. The bulk delivery trucks then deliver propane to above-ground storage tanks at customer residences, commercial establishments and other end user locations. Retail customers who use only small amounts of propane each year, such as for outdoor grills, bring small portable tanks to convenience and hardware stores to be filled or to be exchanged for full ones. Propane used for forklift motor fuel is stored in small portable tanks that can either be filled at the end-user's site or exchanged for full tanks at the retailer's facility.

The retail propane distribution industry is characterized by a large number of relatively small, independently owned and operated local retailers. Each year a significant number of these retailers sell their businesses for reasons that include, among others, retirement and estate planning. In addition, many small independent retailers choose to sell their companies rather than face the increasing governmental regulations and escalating capital requirements needed to replace fleet vehicles and acquire advanced, customer-oriented technologies used for routing, delivery forecasting and remote tank monitoring. Primarily as a result of these factors, as well as the fact that the retail propane industry is mature and overall demand for propane is not expected to grow, the industry is undergoing consolidation.

**Demand and Seasonality**

According to the U.S. Energy Information Administration, propane accounts for approximately 4% of energy consumption in the United States, a level that has remained relatively constant for the past two decades.



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*Petrochemical Industry.* The petrochemical industry uses propane as a raw material to make products such as plastic and nylon. However, because petrochemical industry consumers can use other raw materials in addition to propane to make these products, they usually switch to other commodities when the price of propane becomes uneconomical for their operations. As a result, propane usage by the petrochemical industry tends to rise during the summer when the price of propane is generally lower and tends to fall during the winter heating months when the price of propane is generally higher. Petrochemical demand for propane is also regional due to the high concentration of petrochemical plants in the Gulf Coast region.

*Residential.* Residential customers use propane primarily for space heating, water heating, cooking and operating propane-fueled appliances. Because many residential propane customers rely on propane as their primary heating fuel, residential propane usage is highly seasonal with the highest demand in the fall and winter months.

*Agricultural.* Agricultural customers use propane primarily for crop drying, tobacco curing, poultry brooding, heating livestock buildings, weed control, and as fuel for farm equipment and irrigation pumps. Crop drying accounts for the largest component of agricultural use of propane. Agricultural use of propane is primarily concentrated in the Midwest.

*Commercial and Industrial.* Commercial customers, such as restaurants, motels, laundries and commercial buildings, use propane in a variety of applications, including cooking, heating and drying. Industrial customers use propane primarily as engine fuel for forklifts and stationary engines, to fire furnaces, in mining operations and in other industrial applications. Propane usage by commercial and industrial customers is typically not seasonal.

**Alternatives**

Propane serves as an alternative to natural gas in rural and suburban areas where natural gas is unavailable or portability of product is required. In locations served by natural gas, propane is generally more expensive on an equivalent BTU basis. Historically, the expansion of natural gas into traditional propane markets has been limited by the capital costs required to expand pipeline and distribution systems. Although propane distribution tends to be displaced in areas served by extensions of natural gas pipelines, new opportunities for propane sales arise as more remote rural homes and suburban neighborhoods are developed.

Propane is generally less expensive to use than electricity for space heating, water heating, clothes drying and cooking. Although propane is similar to fuel oil in certain heating applications and market demand, propane and fuel oil compete to a lesser extent primarily because of the cost of converting from one to the other. Propane is often favored over fuel oil because of its flexibility for use in the home for applications other than heating.

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**BUSINESS**

**Overview**

We are a Delaware limited partnership formed in September 2010. As part of our formation, we acquired and combined the assets and operations of NGL Supply, primarily a wholesale propane and terminaling business founded in 1967, and Hicksgas, primarily a retail propane business founded in 1940. We own and, through our subsidiaries, operate a vertically-integrated propane business with three operating segments: retail propane; wholesale supply and marketing; and midstream. We engage in the following activities through our operating segments:

our retail propane business sells propane to end users consisting of residential, agricultural, commercial and industrial customers;

our wholesale supply and marketing business supplies propane and other natural gas liquids and provides related storage to retailers, wholesalers and refiners; and

our midstream business, which currently consists of our propane terminaling business, takes delivery of propane from pipelines and trucks at our propane terminals and transfers the propane to third-party transport trucks for delivery to retailers, wholesalers and other customers.

We serve more than 54,000 retail propane customers in Georgia, Illinois, Indiana and Kansas. We serve approximately 500 wholesale supply and marketing customers in 30 states and approximately 120 midstream customers in Illinois, Missouri and New York. For the fiscal year ended March 31, 2010, on a combined pro forma basis:

we sold approximately 54 million gallons of propane to retail customers;

we sold approximately 356 million gallons of propane to third-party retailers, wholesalers and refiners, 248 million gallons of propane through ownership transfers of propane held in storage, 19 million gallons of propane to our retail propane business and 54 million gallons of other natural gas liquids (primarily butane and natural gasoline) to refiners; and

we transferred approximately 171 million gallons of propane to our midstream customers through our propane terminals.

Our businesses represent a combination of "margin-based," "cost-plus" and "fee-based" revenue generating operations. Our retail propane business generates margin-based revenues, meaning our gross margin depends on the difference between our propane sales price and our total propane supply cost. Our wholesale supply and marketing business generates cost-plus revenues. Cost-plus represents our aggregate total propane supply cost plus a margin to cover our replacement cost consisting of cost of capital, storage, transportation, fuel surcharges and an appropriate competitive margin. Our midstream business generates fee-based revenues derived from a cents-per-gallon charge for the transfer of propane volumes, also known as throughput, at our propane terminals.

Historically, the principal factors affecting our businesses have been demand and our cost of supply, as well as our ability to maintain or expand our realized margin from our margin-based and cost-plus operations. In particular, fluctuations in the price of propane have a direct impact on our reported revenues and may affect our margins depending on our success of passing cost increases on to our retail propane and wholesale supply and marketing customers.

**Our Business Strategies**

Our principal business objective is to increase the quarterly distributions that we pay to our unitholders over time while ensuring the ongoing stability of our business. We expect to achieve this objective by executing the following strategies:

***Grow Through Strategic Acquisitions***

We intend to pursue accretive acquisitions that will complement our existing vertically integrated propane business model as well as expand our operations into the natural gas midstream business.

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Because we are smaller than our publicly traded competitors, we believe that the acquisitions we make will be more accretive to us and have a greater impact on our cash available for distribution than would be the case for our competitors. Our acquisition strategy will focus on the following businesses and assets:

*Retail propane.* We intend to pursue acquisitions of retail propane operations on both coasts to mitigate weather risk and in the upper Midwest where we can integrate assets into our current operations. We will target retail propane businesses with high tank ownership, a high percentage of sales to residential customers and an excellent reputation for customer service and reliability. We anticipate maintaining the trade names of companies we acquire and a local presence to minimize customer loss and enhance our position as an attractive buyer.

*Wholesale supply and marketing.* We intend to pursue acquisitions of propane distribution assets, including propane terminals, that will complement our wholesale supply and marketing business. Geographically, we intend to focus on the Midwest but we will also seek to expand into the Northeast and other areas of the United States. Propane storage assets outside of the major propane hubs will also be of interest to us.

*Midstream.* We intend to pursue acquisitions of natural gas midstream businesses as we seek to expand beyond our existing propane terminal operations, which make up our midstream business today. We intend to acquire natural gas transportation pipelines and gathering and processing assets that have limited sensitivity to commodity prices. These assets could be located throughout the United States, and we are not limiting ourselves to the areas in which we currently operate.

***Pursue Organic Growth***

We intend to enhance the cash flows of our existing and acquired businesses by pursuing opportunities to grow volumes and margins as well as by investing in new assets that will enhance our operations with an attractive rate of return. Accretive organic growth opportunities often originate from acquisitions of midstream and, to a lesser extent, wholesale supply and marketing assets that are not optimally utilized or operated. We will also focus on expanding our supply and marketing of other natural gas liquids.

***Focus on Consistent Annual Cash Flows***

We will continue adding operations that generate fee-based, cost-plus or margin-based revenues. We believe that expanding our retail propane business with an emphasis on a high level of tank ownership, the majority of which are leased by residential customers, will result in high customer retention rates and consistent operating margins. In our wholesale supply and marketing business, we intend to focus on and increase the amount of pre-sale contracts. Pre-sale contracts improve cash flow by requiring customer deposits at the time of the sale, take advantage of our significant storage space and eliminate any commodity risk, while helping generate consistent cash flows. With respect to our midstream business, we intend to generate the majority of our revenues from fee-based services from terminals and acquired natural gas transportation pipelines and gathering and processing assets.

***Maintain a Disciplined Capital Structure***

We intend to maintain a disciplined capital structure characterized by lower levels of financial leverage and a cash distribution policy that complements our acquisition and organic growth strategies. We intend to use internally generated cash flows to make distributions to our unitholders and excess internally generated cash flows plus proceeds from equity issuances to repay indebtedness, including amounts outstanding under our revolving credit facility. We intend to fund our acquisitions and organic growth strategies with indebtedness and issuances of additional partnership interests.

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**Our Competitive Strengths**

We believe that we are well-positioned to successfully execute our business strategies and achieve our principal business objective because of the following competitive strengths:

***Our Experienced Management Team with Extensive Acquisition and Integration Experience***

Our senior management team has, on average, approximately 27 years of experience in the propane and midstream energy industry, and our Chief Executive Officer, our Chief Financial Officer and our Vice President, Business Development have significant experience managing a publicly traded limited partnership and other publicly traded companies. While in previous senior management positions, our senior management team collectively acquired and successfully integrated more than 150 propane and midstream related businesses. In addition, our senior management team has developed strong business relationships with key industry participants throughout the United States. We believe that their knowledge of the industry, relationships within the industry and experience in identifying, evaluating and completing acquisitions will provide us with opportunities to grow through strategic and accretive acquisitions that complement or expand our existing operations. In addition, we believe we will benefit from our senior management team's experience in completing debt and equity financings and creating cash distribution policies that (i) are based on consistent, predictable annual cash flows and (ii) use excess cash to reduce debt with a prudent mix of additional equity issuances and debt to fund strategic acquisitions and organic growth.

***Cash Flows from Our Vertically Integrated and Diversified Operations***

Our vertically integrated and diversified operations help us generate more predictable cash flows on a year-to-year basis. Our retail propane business sources propane through our wholesale supply and marketing business, which allows us to take advantage of the expertise of our wholesale supply and marketing business to help improve our profitability and enhance our year-to-year cash flows. In addition, our high percentage of tank ownership, level payment billing, automatic delivery program and pre-sale program have resulted in a strong record of customer retention and help us better predict our cash flows. In our wholesale supply and marketing business we use cost-plus pricing, our significant storage space, our access to propane supply and marketing through seven common carrier pipelines, pre-sale arrangements with deposit requirements and back-to-back sales and supply contracts to help generate more stable year-to-year cash flows even in periods of fluctuating propane prices. Our midstream business generates consistent year-to-year cash flows from fee-based revenue and stable throughput volumes.

***Our High Percentage of Retail Sales to Residential Customers***

Our retail propane business concentrates on sales to residential customers. Residential customers are generally more stable purchasers of propane and generate higher margins than other customers. For the fiscal year ended March 31, 2010, sales to residential customers represented approximately 69% of our retail propane gallons sold. Although overall demand for propane is affected by weather and other factors, we believe that residential propane consumption is not materially affected by general economic conditions because the majority of residential customers consider home space heating to be an essential purchase. In addition, approximately 80% of our retail propane customers lease their propane tanks from us. Due to regulations in many states, a leased propane tank may only be refilled by the propane supplier that owns the tank. The inconvenience associated with switching tanks and suppliers reduce the likelihood that a customer will change suppliers and contributes to our high rate of retail customer retention.

***Our Wholesale Supply and Marketing Business***

Our wholesale supply and marketing business sold approximately 356 million gallons of propane to third-party retailers, wholesalers and refiners, 248 million gallons of propane through product transfers, 19 million gallons of propane to our retail propane business and 54 million gallons of other natural

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gas liquids (primarily butane and natural gasoline) to refiners on a combined pro forma basis for the fiscal year ended March 31, 2010. We have the reputation with our wholesale customers in the Midwest as a reliable supplier of competitively-priced propane for over 40 years. Our wholesale business provides us with a growing income stream as well as valuable market intelligence that helps identify potential acquisition opportunities. We currently purchase the majority of the propane sold in our retail propane business from our wholesale supply and marketing business, which provides our retail propane business with a stable and secure supply of propane. Our sales team markets propane out of terminals on seven common carrier pipeline systems, including site specific private terminals, rail and refinery keep-dry propane terminals throughout the Midwestern, Northeastern and Southeastern propane marketing regions.

***Our Propane Terminals and Capacity on the Blue Line Pipeline***

Our midstream business serves 120 customers through our three state-of-the-art propane terminals located in East St. Louis, Illinois; Jefferson City, Missouri; and St. Catharines, Ontario. We believe we are the primary terminal and wholesale supplier of propane to the retailer and consumer market in an area surrounding our terminals. Our propane terminals in Illinois and Missouri are connected to the Blue Line pipeline. We have the right to utilize ConocoPhillips' capacity as a shipper on the Blue Line pipeline during the typical heating season from September 15 through March 15. Since ConocoPhillips is currently the only shipper on the Blue Line pipeline, we are effectively able to use 100% of the capacity on the Blue Line pipeline during this period each year. We do not believe any other shippers will meet the requirements to utilize the Blue Line pipeline under the applicable FERC tariff during the term of our agreement with ConocoPhillips. When some common carrier pipelines allocate propane terminal deliveries among shippers during periods of extreme demand, our right to use ConocoPhillips' capacity as a shipper on the Blue Line pipeline is advantageous because we can handle demand from customers who are on allocation at our competitors' terminals. This provides us with additional margins for our wholesale supply and marketing business and throughput gains for our propane terminals in our midstream business during brief periods of propane supply interruption.

**Our History**

In October 2010, we acquired and combined the assets and operations of NGL Supply and Hicksgas to create a vertically-integrated propane and other natural gas liquids business, consisting of retail propane, wholesale supply and marketing and midstream.

NGL Supply was founded in 1967 as a wholesale propane supply and marketing company. In 2002, NGL Supply expanded into the midstream propane sector by purchasing ConocoPhillips' propane loading and storage assets at terminals located in Jefferson City, Missouri and East St. Louis, Illinois as part of an asset divestiture required by the U.S. Federal Trade Commission in connection with the merger of Conoco Inc. and Phillips Petroleum Company. NGL Supply also entered into a related lease agreement with ConocoPhillips for propane storage space in Borger, Texas. In 2003, NGL Supply completed construction of an additional propane terminal in St. Catharines, Ontario.

Between 2007 and 2010, NGL Supply expanded its business into the retail propane industry by completing nine retail propane acquisitions. As a result of these acquisitions, NGL Supply entered into the retail propane market in Georgia and Kansas and added approximately 16 million gallons annually of retail propane sales to its business.

Hicksgas was founded in 1940 as a retail propane company. From its first location in east central Illinois, the company steadily expanded through organic growth and by making numerous acquisitions. Since 1992, Hicksgas has completed 25 retail propane acquisitions, which added approximately 14 million gallons annually of retail propane sales to its business. Hicksgas' market area covers most of the northern two-thirds of Illinois and the northwestern quarter of Indiana. Total annual retail propane volume for Hicksgas' 32 customer service centers is approximately 38 million gallons.

Table of Contents**The NGL Energy Investor Group**

Our management, directors and employees have a substantial ownership interest in our general partner, and will own a significant number of our common units after the completion of this offering. As of March 31, 2011, the 16 members of the NGL Energy GP Investor Group owned all of the outstanding membership interests in our general partner in the percentages set forth below:

	<b>Ownership Interest</b>
NGL Holdings, Inc.(1)	21.96%
Stanley A. Bugh	0.93%
David R. Eastin	1.16%
Robert R. Foster	1.04%
Brian K. Pauling	4.67%
Stanley D. Perry	0.93%
Stephen D. Tuttle	4.67%
Craig S. Jones	0.35%
Daniel Post	0.18%
Mark McGinty	0.31%
Sharra Straight	0.27%
<b>NGL Supply Parties Total</b>	<b>36.47%</b>
Coady Enterprises, LLC(2)	15.50%
Thorndike, LLC(3)	15.50%
<b>Coady Parties Total</b>	<b>31.00%</b>
KrimGP2010, LLC(4)	14.64%
Infrastructure Capital Management, LLC(5)	8.13%
Atkinson Investors, LLC(6)	9.76%
<b>IEP Parties Total</b>	<b>32.53%</b>
<b>Total</b>	<b>100.00%</b>

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- (1) William A. Zartler, a member of the board of directors of our general partner, is the sole director of NGL Holdings, Inc. and as such has sole voting and dispositive power with respect to the membership interests of our general partner which are owned by NGL Holdings, Inc., but disclaims beneficial ownership except to the extent of his pecuniary interest therein. NGL Holdings, Inc. is 100% owned by Denham Commodity Partners Fund II LP, which is managed by its general partner, Denham Commodity Partners GP II LP, which is owned by the employees of Denham Capital Management LP and is controlled by its general partner, Denham GP II LLC, which is in turn also owned by an employee of Denham Capital Management LP. Denham Capital Management LP, of which Mr. Zartler is a founder and managing partner, acts as the investment advisor for Denham Commodity Partners Fund II LP.
- (2) Shawn W. Coady, our Co-President and Chief Operating Officer, Retail Division and a member of the board of directors of our general partner, owns 100% of the membership interests in Coady Enterprises, LLC.
- (3) Todd M. Coady, our Co-President, Retail Division, owns 100% of the membership interests in Thorndike, LLC.
- (4) H. Michael Krimbill, our Chief Executive Officer and a member of the board of directors of our general partner, owns 100% of KrimGP2010, LLC.
- (5)

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Jay D. Hatfield owns 100% of Infrastructure Capital Management, LLC.

(6)

Bradley K. Atkinson Family Investments owns 100% of Atkinson Investors, LLC. Bradley K. Atkinson Family Investments is owned 69% by Bradley K. Atkinson, our Vice President, Business Development, and Cheryl Atkinson, 15% by Jennifer Lynn Atkinson Trust, 15% by Michael Steven Atkinson Trust, and 1% by its general partner, Bradley K. Atkinson Family Management LLC.



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As of March 31, 2011, the 15 members of the NGL Energy LP Investor Group owned all of our outstanding common units in the percentages set forth below:

	<b>Ownership Interest</b>
NGL Holdings, Inc.(1)	26.09%
Stanley A. Bugh	1.11%
David R. Eastin	1.37%
Robert R. Foster	1.23%
Brian K. Pauling	5.54%
Stanley D. Perry	1.11%
Stephen D. Tuttle	5.54%
Craig S. Jones	0.42%
Daniel Post	0.21%
Mark McGinty	0.37%
Sharra Straight	0.32%
Hicks Oils & Hicksgas, Incorporated(2)	38.00%
Krim2010, LLC(3)	8.41%
Infrastructure Capital Management, LLC(4)	4.67%
Atkinson Investors, LLC(5)	5.61%
<b>Total</b>	<b>100.00%</b>

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- (1) William A. Zartler, a member of the board of directors of our general partner, is the sole director of NGL Holdings, Inc. William A. Zartler, a member of the board of directors of our general partner, is the sole director of NGL Holdings, Inc. and as such has sole voting and dispositive power with respect to our common and subordinated units which are owned by NGL Holdings, Inc., but disclaims beneficial ownership except to the extent of his pecuniary interest therein. NGL Holdings, Inc. is 100% owned by Denham Commodity Partners Fund II LP, which is managed by its general partner, Denham Commodity Partners GP II LP, which is owned by the employees of Denham Capital Management LP and is controlled by its general partner, Denham GP II LLC, which is in turn owned by an employee of Denham Capital Management LP. Denham Capital Management LP, of which Mr. Zartler is a founder and managing partner, acts as the investment advisor for Denham Commodity Partners Fund II LP.
- (2) Shawn W. Coady, our Co-President and Chief Operating Officer, Retail Division and a member of the board of directors of our general partner, owns 50.03% of Hicks Oils & Hicksgas, Incorporated. Todd M. Coady, our Co-President, Retail Division, owns 49.97% of Hicks Oils & Hicksgas, Incorporated.
- (3) Krimbill Enterprises LP, H. Michael Krimbill, our Chief Executive Officer and a member of the board of directors of our general partner, and James E. Krimbill own 90.89%, 4.05%, and 5.06% of Krim2010, LLC, respectively. H. Michael Krimbill exercises the sole dispositive power for Krimbill Enterprises LP.
- (4) Jay D. Hatfield owns 100% of Infrastructure Capital Management, LLC.
- (5) Bradley K. Atkinson Family Investments owns 100% of Atkinson Investors, LLC. Bradley K. Atkinson Family Investments is owned 69.00% by Bradley K. Atkinson, our Vice President, Business Development, and Cheryl Atkinson, 15.00% by Jennifer Lynn Atkinson Trust, 15.00% by Michael Steven Atkinson Trust, and 1.0% by its general partner, Bradley K. Atkinson Family Management LLC.

Table of Contents**Our Operating Segments*****Retail Propane***

**Overview.** Our retail propane business consists of the retail marketing, sale and distribution of propane, including the sale and lease of propane tanks, equipment and supplies, to more than 54,000 residential, agricultural, commercial and industrial customers. Based on industry statistics from *LPGas* magazine, we believe that we are the 12th largest domestic retail propane distribution company by volume. We purchase the majority of the propane sold in our retail propane business from our wholesale supply and marketing business, which provides our retail propane business with a stable and secure supply of propane.

**Operations.** We market retail propane in Georgia, Illinois, Indiana and Kansas through our customer service locations using the Hicksgas, Propane Central and Brantley Gas regional brand names. We sell propane primarily in rural areas, but we also have a number of customers in suburban areas where energy alternatives to propane such as natural gas are not generally available. We own or lease 44 customer service locations and 37 satellite distribution locations, with aggregate above-ground propane storage capacity of approximately four million gallons. Our customer service locations are staffed and operated to service a defined geographic market area and typically include a business office, product showroom and secondary propane storage. Our bulk delivery trucks refill their propane supply at our satellite distribution locations, which are unmanned above-ground storage tanks, allowing our customer service centers to serve an extended market area.

Our customer service locations in Illinois and Indiana also rent approximately 15,000 water softeners and filters, primarily to residential customers in rural areas to treat well water or other problem water. We sell water conditioning equipment and treatment supplies as well. Although the water conditioning portion of our retail propane business is small, it generates steady year round revenues. The customer bases in Illinois and Indiana for retail propane and water conditioning have significant overlap, providing the opportunity to cross-sell both products between those customer bases.

The following table shows the number of our customer service locations and satellite distribution locations by state:

State	Number of Customer Service Locations	Number of Satellite Distribution Locations
Georgia	6	
Illinois	25	17
Indiana	7	2
Kansas	6	18
<b>Total</b>	<b>44</b>	<b>37</b>

Retail deliveries of propane are usually made to customers by means of our fleet of bulk delivery trucks. Propane is pumped from the bulk delivery truck, which generally holds 2,400 to 3,500 gallons, into an above-ground storage tank at the customer's premises. The capacity of these storage tanks ranges from approximately 100 to 350 gallons in milder climates and 500 to 1,000 gallons in colder climates. We also deliver propane to retail customers in portable cylinders, which typically have a capacity of five to 25 gallons. These cylinders are picked up on a delivery route, refilled at our customer service locations and then returned to the retail customer. Customers can also bring the cylinders to our customer service centers to be refilled.

Approximately 57% of our residential customers receive their propane supply via our automatic route delivery program, which allows us to maximize our delivery efficiency. Our delivery forecasting software system utilizes a customer's historical consumption patterns combined with current weather conditions to more accurately predict the optimal time to refill their tank. The delivery information is then uploaded to routing software to calculate the most cost effective delivery route. Our automatic

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delivery program eliminates the customer's need to make an affirmative purchase decision, promotes customer retention by ensuring an uninterrupted supply of propane and enables us to efficiently route deliveries on a regular basis. Some of our purchase plans, such as level payment billing, fixed price and price cap programs, further promote our automatic delivery program.

*Customers.* Our retail propane customers fall into three broad categories: residential; agricultural; and commercial and industrial. On a combined pro forma basis during the fiscal year ended March 31, 2010, our retail propane sales volumes were comprised of approximately:

69% to residential customers;

16% to agricultural customers; and

15% to commercial and industrial customers.

No single customer accounted for more than 0.5% of our combined pro forma retail propane volumes during the fiscal year ended March 31, 2010.

*Seasonality.* The retail propane business is largely seasonal due to the primary use of propane as a heating fuel. In particular, residential and agricultural customers who use propane to heat homes and livestock buildings generally only need to purchase propane during the typical fall and winter heating season. Propane sales to agricultural customers who use propane for crop drying are also seasonal, although the impact on our retail propane volumes sold varies from year to year depending on the moisture content of the crop and the ambient temperature at the time of harvest. Propane sales to commercial and industrial customers, while affected by economic patterns, are not as seasonal as are sales to residential and agricultural customers.

***Wholesale Supply and Marketing***

*Overview.* Our wholesale supply and marketing business provides propane procurement, storage, transportation and supply services to customers through assets owned by us and third parties. Our wholesale supply and marketing business also obtains the majority of the propane supply for our retail propane business. We also sell butanes and natural gasolines to refiners for use as blending stocks.

*Operations.* We procure propane from refiners, gas processing plants, producers and other resellers for delivery to leased storage space, common carrier pipelines, rail car terminals and direct to certain customers. Our customers take delivery by loading propane into transport vehicles from common carrier pipeline terminals, private terminals, our propane terminals, directly from refineries and rail terminals and by rail car.

Approximately 41% of our wholesale propane gallons are presold to third-party retailers and wholesalers at a fixed price under back-to-back contractual arrangements. Back-to-back arrangements, in which we balance our contractual portfolio by buying propane supply when we have a matching purchase commitment from our wholesale customers, protects our margins and eliminates commodity price risk. Pre-sales also reduce the impact of warm weather because the customer is required to take delivery of the propane regardless of the weather. We generally require cash deposits from these customers. In addition, on a daily basis we have the ability to balance our inventory by buying or selling propane, butanes and natural gasoline to refiners, resellers and propane producers through pipeline inventory transfers at major storage hubs.

In order to secure available supply during the heating season, we are often required to purchase volumes of propane during the off season. In order to mitigate storage costs, we sell those volumes in place through ownership transfers at a lesser margin than we earn in our wholesale truck and rail business. For the year ended March 31, 2010, this activity consisted of approximately 320 million gallons.

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The following map shows certain assets owned by us and third parties that we utilize in our wholesale supply and marketing business, including seven common carrier pipelines, refinery terminals, railcar terminals, leased storage facilities, and our propane terminals:

We lease propane storage space to accommodate the supply requirements and contractual needs of our retail and wholesale customers. We have approximately 36 million gallons of leased propane storage space at the ConocoPhillips facility in Borger, Texas under an agreement that expires in March 2012. We are currently in discussions with ConocoPhillips regarding the renewal of this storage space lease agreement. In addition to our leased propane storage space at the Borger facility, we lease approximately 32 million gallons of storage space for propane and other natural gas liquids in various storage hubs in Kansas, Mississippi and Texas.

The following chart shows our leased storage space at propane storage facilities and interconnects to those facilities:

Storage Facility	Leased Storage Space (in gallons)	Storage Interconnects
Borger, Texas	35,700,000	Connected to ConocoPhillips Blue Line Pipeline
Conway, Kansas	19,120,000	Connected to Enterprise Mid-America and NuStar Pipelines
Bushton, Kansas	9,450,000	Connected to ONEOK North System Pipeline
Mont Belvieu, Texas	2,100,000	Connected to Enterprise Texas Eastern Products Pipeline
Hattiesburg, Mississippi	2,100,000	Connected to Enterprise Dixie Pipeline
<b>Total</b>	<b>68,470,000</b>	

During the typical heating season from September 15 through March 15 each year, we have the right to utilize ConocoPhillips' capacity as a shipper on the Blue Line pipeline to transport propane from



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our leased storage space to our terminals in Illinois and Missouri. During the remainder of the year, we have access to available capacity on the Blue Line pipeline on the same basis as other shippers.

*Customers.* Our wholesale supply and marketing business serves approximately 500 customers in 30 states concentrated in the Mid-Continent, Northeast and Southeast. Our wholesale supply and marketing business serves national, regional and independent retail, industrial, wholesale, petrochemical, refiner and propane production customers. Our wholesale supply and marketing business also supplies the majority of the propane for our retail propane business. We deliver the propane supply to our customer at terminals located on seven common carrier pipeline systems, five rail terminals, five refineries and major U.S. propane storage hubs. On a combined pro forma basis for the fiscal year ended March 31, 2010, our five largest wholesale customers represented only 31% of the total volumes sold in our wholesale supply and marketing business.

*Seasonality.* Our wholesale supply and marketing business is affected by the weather in a similar manner as our retail propane business. However, we are able to partially mitigate the effects of seasonality by pre-selling approximately 42% of our wholesale supply and marketing volumes to retailers and wholesalers and requiring the customer to take delivery regardless of the weather.

**Midstream**

*Overview.* Our midstream business, which currently consists of our propane terminaling business, takes delivery of propane from a pipeline or truck at our propane terminals and transfers the propane to third party trucks for delivery to propane retailers, wholesalers or other customers. On a combined pro forma basis for the fiscal year ended March 31, 2010, our propane terminals had annual throughput in excess of 170 million gallons of propane.

*Operations.* Our midstream assets consist of our three propane terminals in East St. Louis, Illinois; Jefferson City, Missouri; and St. Catharines, Ontario. All three of our propane terminals have on-site staff and state-of-the-art technology, including environmental and safety systems, online information systems, automatic loading and unloading of propane, and security cameras. Our propane terminals also have automated truck loading and unloading facilities that operate 24 hours a day. These automated facilities provide for control of security, allocations, credit and carrier certification by remote input of data.

Our throughput volumes from our terminals increased from 130 million gallons in fiscal 2008 to 171 million gallons in fiscal 2010. We have the ability to expand our storage and loading and unloading capacity and the opportunity to increase annual throughputs at each of our propane terminals with relatively minimal additional operating costs.

The following chart shows the approximate maximum daily throughput capacity at each of our propane terminals:

<b>Facility</b>	<b>Throughput Capacity (in gallons per day)</b>
East St. Louis, Illinois	883,000
Jefferson City, Missouri	883,000
St. Catharines, Ontario	700,000
<b>Total</b>	<b>2,466,000</b>

We have operating agreements with third parties for each of our propane terminals. The terminals in Illinois and Missouri are operated for us by ConocoPhillips for a monthly fee under an operating and maintenance agreement that has a base term that expires in 2012 with a five-year extension to 2017 at our option. Our facility in Ontario is operated by a third party under a year-to-year agreement.

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We own the propane terminal assets and either have easements or lease the land on which the terminaling assets are located. The propane terminals in Missouri and Illinois have perpetual easements, and the propane terminal in Ontario has a long-term lease that expires in 2022.

*Customers.* We are the exclusive service provider at each of our propane terminals, serving approximately 120 customers in Illinois, Missouri and New York. During times of allocation and supply disruptions on competing common carrier pipeline terminals, our propane terminaling coverage area extends to customers located in Arkansas, Indiana, Iowa, Kansas, Kentucky, Ohio, Pennsylvania and Tennessee.

*Seasonality.* The volumes we transfer in our midstream business are based on retail and wholesale propane sales. As a result, our midstream business is affected by the weather in a manner similar to our retail propane and wholesale supply and marketing businesses.

**Competition**

*Overview.* Our retail propane, wholesale supply and marketing and midstream businesses all face significant competition. The primary factors on which we compete are:

price;

availability of supply;

level and quality of service;

available space on common carrier pipelines;

storage availability;

obtaining and retaining customers; and

the acquisition of businesses.

Our competitors generally include other propane retailers and wholesalers, companies involved in the propane and other natural gas liquids midstream industry (such as terminal and refinery operations) and companies involved in the sale of natural gas, fuel oil and electricity, some of which have greater financial resources than we do.

*Retail Propane.* In our retail propane business, we compete with alternative energy sources and with other companies engaged in the retail propane distribution business. Competition with other retail propane distributors in the propane industry is highly fragmented and generally occurs on a local basis with other large full-service, multi-state propane marketers, smaller local independent marketers and farm cooperatives. Our customer service locations generally have one to five competitors in their market area. According to statistics in *LPGas* magazine:

the ten largest retailers account for less than 39% of the total retail sales of propane in the United States;

no single retail propane business has a greater than 10% share of the total retail propane market in the United States; and

the propane retailers nationally range in size from less than 100,000 gallons to over 500 million gallons sold annually.

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The competitive landscape of the markets that we serve has been fairly stable. Each customer service location operates in its own competitive environment since retailers are located in close proximity to their customers because of delivery economics. Our customer service locations generally have an effective marketing radius of approximately 25 miles, although in certain areas the marketing radius may be extended by satellite distribution locations.

The ability to compete effectively depends on the ability to provide superior customer service, which includes reliability of supply, quality equipment, well-trained service staff, efficient delivery, 24-hours-a-day service for emergency repairs and deliveries, multiple payment and purchase options and



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the ability to maintain competitive prices. Additionally, we believe that our safety programs, policies and procedures are more comprehensive than many of our smaller, independent competitors, which ensures a higher level of service to our customers. We also believe that our overall service capabilities and customer responsiveness differentiate us from many of these smaller competitors.

*Wholesale Supply and Marketing.* The wholesale supply and marketing business is also highly competitive. Our competitors include producers and independent regional wholesalers. Propane sales to retail distributors and large-volume, direct-shipment industrial end users are more price sensitive and frequently involve a competitive bidding process. Although the wholesale supply and marketing business has lower margins than the retail propane business, we believe that our wholesale supply and marketing business provides us with a stronger regional presence and a stable and secure supply base for our retail propane business and positions us well for expansion through acquisitions or start-up operations in new markets.

We compete with integrated petroleum companies, independent terminal companies and distribution companies to purchase and lease propane storage. We believe the storage portion of our wholesale supply and marketing business is well-positioned in the markets we serve. All of our leased propane storage spaces are located at facilities connected to common carrier pipeline systems.

*Midstream.* We encounter competition in our midstream business, primarily from companies that own terminal facilities close to our terminals. However, due to the location of our terminals and our ability to move propane to and from such locations, we believe we are the primary terminal and wholesale supplier of propane in an area surrounding our terminals. We are the exclusive service provider at each of our propane terminals, which allows us to serve additional markets and increase our throughput during periods of propane supply disruption among our competitors. In addition, our third party operating agreements provide us with a relatively fixed operating cost at each of our three terminal locations.

## **Supply**

On a combined pro forma basis for the fiscal year ended March 31, 2010, three suppliers accounted for approximately 51% of our volume of propane purchases. We believe that our diversification of suppliers will enable us to purchase all of our propane supply needs at market prices without a material disruption of our operations if supplies are interrupted from a particular source.

The supply of propane for our wholesale supply and marketing business is obtained through multiple sources, but primarily through natural gas processing plants, fractionators and refineries under long-term contractual purchase agreements. The purchase contracts are usually tied to the Oil Price Information Service, or OPIS, index on a daily or weekly basis.

We use pipelines and contract with common carriers, owner-operators and railroad tank cars to transport the propane from our sources of supply. Our customer service locations and satellite distribution locations typically have one or more 12,000 to 60,000 gallon storage tanks. Additionally, we lease underground propane storage space from third parties under annual lease agreements.

We purchased all of our propane supply from North American suppliers during the fiscal year ended March 31, 2010, on a combined pro forma basis. With the exception of our propane supply agreement with ConocoPhillips described below, all of our term propane purchase contracts are year-to-year. The percentage of our propane supply obtained from contract purchases varies from year to year, with the balance purchased on the spot market. Supply contracts generally provide for pricing in accordance with OPIS-based pricing at the time of delivery or the current spot market prices at major storage locations.

We have a propane supply agreement with ConocoPhillips pursuant to which ConocoPhillips is required to supply us with weekly volumes of propane. The primary term of this agreement expires in 2012, and the agreement is renewable for a five-year period at our option followed by a year-to-year continuation. We expect to exercise our option to extend this agreement through 2017.

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**Pricing Policy**

*Retail Propane.* Our pricing policy is an essential element in the successful marketing of retail propane. We protect our margin by adjusting our retail propane pricing based on, among other things, prevailing supply costs, local market conditions and input from management at our customer service locations. We rely on our regional management to set prices based on these factors. Our regional managers are advised regularly of any changes in the delivered cost of propane, potential supply disruptions, changes in industry inventory levels and possible trends in the future cost of propane. We believe the market intelligence provided by our wholesale supply and marketing business combined with our propane pricing methods allows us to respond to changes in supply costs in a manner that protects our customer base and our margins.

*Wholesale Supply and Marketing.* In our wholesale supply and marketing business, we offer our customers three categories of contracts for propane sourced from common carrier pipelines:

customer pre-buys, which typically require deposits based on market pricing conditions and have terms ranging from 60 to 365 days;

rack barrel, which is a posted price at time of delivery; and

load package, a firm price agreement for customers seeking to purchase specific volumes delivered during a specific time period.

We use back-to-back contractual agreements for a majority of our wholesale supply and marketing sales to limit exposure to commodity price risk and protect our margins. We are able to match our supply and sales commitments by offering our customers purchase contracts with flexible price, location, storage and ratable delivery. However, certain common carrier pipelines require us to keep minimum in-line inventory balances year round to conduct our daily business, and these volumes may not be matched with a purchase commitment.

We generally require deposits from our customers for fixed priced future delivery of propane if the delivery date is more than 30 days after the time of sale.

*Midstream.* In our midstream business, we primarily earn fees derived from a cents-per-gallon charge for the volumes transferred through our propane terminals. As a result, our midstream business is not directly impacted by fluctuations in the price of propane.

**Billing and Collection Procedures**

*Retail Propane.* In our retail propane business, our customer service locations are typically responsible for customer billing and account collection. We believe that this decentralized and more personal approach is beneficial because our local staff has more detailed knowledge of our customers, their needs and their history than would an employee at a remote billing center. Our local staff often develop relationships with our customers that are beneficial in reducing payment time for a number of reasons:

customers are billed on a timely basis;

customers tend to keep accounts receivable balances current when paying a local business and people they know;

many customers prefer the convenience of paying in person and feel paying locally helps support their community; and

billing issues may be handled more quickly because local personnel have current account information and detailed customer history available to them at all times to answer customer inquiries.

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Our retail propane customers must comply with our standards for extending credit, which includes submitting a credit application, supplying credit references and undergoing a credit check with an appropriate credit agency.

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*Wholesale Supply and Marketing.* Our wholesale supply and marketing customers consist of commercial accounts varying in size from local independent propane distributors to large regional and national propane retailers. These sales tend to be large volume transactions that can range from approximately 10,000 gallons to as much as 1,000,000 gallons, and deliveries can occur over time periods extending from days to as much as a year. We perform credit analysis, require credit approvals, establish credit limits and follow monitoring procedures on our wholesale customers. We believe the following procedures enhance our collection efforts with our wholesale customers:

we require certain customers to prepay or place deposits for their purchases;

we require certain customers to take delivery of their contracted volume ratably to help control the account balance rather than allowing them to take delivery of propane at their discretion;

we review receivable aging analyses regularly to identify issues or trends that may develop; and

we require our sales personnel to manage their wholesale customers' receivable position and tie a portion of our sales personnel's compensation to their ability to manage their accounts and minimize and collect past due balances.

*Midstream.* In our midstream business, we have a mix of customers similar to that of our wholesale supply and marketing business. We perform similar credit approval and receivable monitoring procedures as we do for our wholesale supply and marketing business. Our midstream customers include independent distributors, regional propane companies and large U.S. marketers. We utilize similar contracts at all of our terminals. Since we do not allow other companies to market propane through our propane terminals, we are able to monitor our customer mix, allowing us to better control our credit risk.

## Properties

*Overview.* We believe that we have satisfactory title or valid rights to use all of our material properties. Although some of these properties are subject to liabilities and leases, liens for taxes not yet due and payable, encumbrances securing payment obligations under non-competition agreements entered into in connection with acquisitions and other encumbrances, easements and restrictions, we do not believe that any of these burdens will materially interfere with our continued use of these properties in our business, taken as a whole. Our obligations under our revolving credit facility are secured by liens and mortgages on substantially all of our real and personal property.

In addition, we believe that we have all required material approvals, authorizations, orders, licenses, permits, franchises and consents of, and have obtained or made all required material registrations, qualifications and filings with, the various state and local governmental and regulatory authorities that relate to ownership of our properties or the operations of our business.

Our corporate headquarters are in Tulsa, Oklahoma and are leased.

*Retail Propane.* We own 33 of our 44 customer service centers and 27 of our 37 satellite distribution locations and we lease the remainder. Tank ownership and control at customer locations are important components to our operations and customer retention. As of March 31, 2011, we owned the following propane storage tanks:

162 bulk storage tanks with capacities ranging from 5,000 to 30,000 gallons; and

approximately 58,000 stationary customer storage tanks with capacities ranging from 100 to 1,000 gallons.

We also leased an additional eight bulk storage tanks.

As of March 31, 2011, we owned a fleet of 94 bulk delivery trucks, nine semi-tractors, eight propane transport trailers and 181 other service trucks and we leased eight bulk delivery trucks and four service trucks. The average age of our company-owned trucks is eight years.



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*Wholesale Supply and Marketing.* We lease approximately 36 million gallons of propane storage space in Borger, Texas from ConocoPhillips. We also lease approximately 33 million gallons of propane storage space at five other storage facilities from other third parties under annual lease agreements.

*Midstream.* We own three propane terminals located in Jefferson City, Missouri; East St. Louis, Illinois; and St. Catharines, Ontario. We either have easements or lease the land on which the terminaling assets are located.

**Trademark and Tradenames**

We use a variety of trademarks and tradenames that we own, including NGL, Hicksgas, Propane Central and Brantley Gas. We intend to retain and continue to use the names of the companies that we acquire and believe that this will help maintain the local identification of these companies and will contribute to their continued success though in certain transactions we may change or be required to change the names of such companies. We regard our trademarks, tradenames and other proprietary rights as valuable assets and believe that they have significant value in the marketing of our products.

**Employees**

As of March 31, 2011, we had 353 full-time employees, of which 341 were operational and 12 were general and administrative employees. Five of our employees at one of our locations are members of a labor union. We believe that our relations with our employees are satisfactory.

**Government Regulation**

*Environmental*

We are subject to various federal, state, and local environmental, health and safety laws and regulations governing the storage, distribution and transportation of propane and the operation of bulk storage LPG terminals. Generally, these laws regulate air and water quality and impose limitations on the discharge of pollutants and establish standards for the handling of solid and hazardous wastes. These laws include, among others, the Resource Conservation and Recovery Act, the Comprehensive Environmental Response, Compensation and Liability Act, or CERCLA, the Clean Air Act, the Occupational Safety and Health Act, the Homeland Security Act of 2002, the Emergency Planning and Community Right to Know Act, the Clean Water Act and comparable state statutes. CERCLA, also known as the "Superfund" law, and similar state laws impose liability, without regard to fault or the legality of the original conduct, on certain classes of potentially responsible persons that are considered to have contributed to the release of a "hazardous substance" into the environment. While propane is not a hazardous substance within the meaning of CERCLA, other chemicals used in our operations may be classified as hazardous. Persons who are or were responsible for releases of hazardous substances under CERCLA may be subject to joint and several liability for the costs of cleaning up the hazardous substances that have been released into the environment, for damages to natural resources and for the costs of certain health studies, and it is not uncommon for neighboring landowners and other third parties to file claims for personal injury and property damage allegedly caused by the hazardous substances released into the environment. We also are subject to a variety of federal, state and local permitting and registration requirements relating to protection of the environment.

*Safety and Transportation*

All states in which we operate have adopted fire safety codes that regulate the storage and distribution of propane. In some states, state agencies administer these laws. In others, municipalities administer them. We conduct training programs to help ensure that our operations comply with applicable governmental regulations. With respect to general operations, each state in which we operate adopts National Fire Protection Association, or NFPA, Pamphlets No. 54 and No. 58, or comparable regulations, which establish a set of rules and procedures governing the safe handling of propane. We believe that the policies and procedures currently in effect at all of our facilities for the handling, storage and

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distribution of propane are consistent with industry standards and are in compliance in all material respects with applicable environmental, health and safety laws.

With respect to the transportation of propane by truck, we are subject to regulations promulgated under federal legislation, including the Federal Motor Carrier Safety Act and the Homeland Security Act of 2002. Regulations under these statutes cover the security and transportation of hazardous materials and are administered by the United States Department of Transportation, or DOT. We maintain various permits necessary to ensure that our operations comply with applicable regulations. The Natural Gas Safety Act of 1968 required the DOT to develop and enforce minimum safety regulations for the transportation of gases by pipeline. The DOT's pipeline safety regulations apply to, among other things, a propane gas system which supplies 10 or more residential customers or 2 or more commercial customers from a single source, as well as a propane gas system, any portion of which is located in a public place. The code requires operators of all gas systems to provide training and written instructions for employees, establish written procedures to minimize the hazards resulting from gas pipeline emergencies, and conduct and keep records of inspections and testing. Operators are subject to the Pipeline Safety Improvement Act of 2002, which, among other things, protects employees from adverse employment actions if they provide information to their employers or to the federal government as to pipeline safety.

***Greenhouse Gas Regulation***

There is a growing concern, both nationally and internationally, about climate change and the contribution of greenhouse gas emissions, most notably carbon dioxide, to global warming. In June 2009, the U.S. House of Representatives passed the ACES Act, also known as the Waxman-Markey Bill. The ACES Act did not pass the Senate, however, and so was not enacted by the 111th Congress. The ACES Act would have established an economy-wide cap on emissions of greenhouse gases in the United States and would have required most sources of greenhouse gas emissions to obtain and hold "allowances" corresponding to their annual emissions of greenhouse gases. By steadily reducing the number of available allowances over time, the ACES Act would have required a 17% reduction in greenhouse gas emissions from 2005 levels by 2020 and just over an 80% reduction of such emissions by 2050. Under such a "cap and trade" system, certain sources of greenhouse gas emissions would be required to obtain greenhouse gas emission "allowances" corresponding to their annual emissions of greenhouse gases. The number of emission allowances issued each year would decline as necessary to meet overall emission reduction goals. As the number of greenhouse gas emission allowances declines each year, the cost or value of allowances is expected to escalate significantly. The ultimate outcome of any possible future legislative initiatives is uncertain. In addition, over one-third of the states have already adopted some legal measures to reduce emissions of greenhouse gases, primarily through the planned development of greenhouse gas emission inventories and/or regional greenhouse gas cap-and-trade programs.

On December 15, 2009, the EPA published its findings that emissions of carbon dioxide, methane and other greenhouse gases present an endangerment to public health and the environment because emissions of such gases are, according to the EPA, contributing to warming of the earth's atmosphere and other climatic changes. These findings allowed the EPA to adopt and implement regulations to restrict emissions of greenhouse gases under existing provisions of the federal Clean Air Act. Accordingly, the EPA recently adopted two sets of regulations addressing greenhouse gas emissions under the Clean Air Act. The first, the "motor vehicle rule," limits emissions of greenhouse gases from motor vehicles beginning with the 2012 model year. EPA has asserted that these final motor vehicle greenhouse gas emission standards trigger Clean Air Act construction and operating permit requirements for stationary sources, commencing when the motor vehicle standards took effect on January 2, 2011. On June 3, 2010, the EPA published its final rule, the "stationary source rule," to address the permitting of greenhouse gas emissions from stationary sources under the Prevention of Significant Deterioration, or the PSD, and Title V permitting programs. This rule "tailors" these permitting programs to apply to certain stationary sources of greenhouse gas emissions in a multi-step process, with the largest sources

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first subject to permitting. It is widely expected that facilities required to obtain PSD permits for their greenhouse gas emissions will be required to also reduce those emissions according to "best available control technology" standards for greenhouse gases that have yet to be developed. Any regulatory or permitting obligation that limits emissions of greenhouse gases could require us to incur costs to reduce emissions of greenhouse gases associated with our operations and also could adversely affect demand for the propane and other natural gas liquids that we transport, store, process, or otherwise handle in connection with our services. The stationary source rule became effective January 2011, although it remains the subject of several pending lawsuits filed by industry groups.

In addition, on October 30, 2009, the EPA published a final rule requiring the reporting of greenhouse gas emissions from specified large greenhouse gas sources in the United States on an annual basis, beginning in 2011 for emissions occurring after January 1, 2010. In November 2010, the EPA finalized its greenhouse gas reporting rule to include onshore oil and natural gas production, processing, transmission, storage, and distribution facilities. If the proposed rule is finalized as proposed, reporting of greenhouse gas emissions from such facilities, including many of our facilities, would be required on an annual basis, with reporting beginning in 2012 for emissions occurring in 2011. The final rule, which is applicable to many of our facilities, would require greenhouse gas reporting on an annual basis, beginning in 2012 for emissions occurring in 2011.

Some scientists have suggested climate change from greenhouse gases could increase the severity of extreme weather, such as increased hurricanes and floods, which could damage our facilities. Another possible consequence of climate change is increased volatility in seasonal temperatures. The market for our propane is generally improved by periods of colder weather and impaired by periods of warmer weather, so any changes in climate could affect the market for our products and services. If there is an overall trend of warmer temperatures, it would be expected to have an adverse effect on our business.

Because propane is considered a clean alternative fuel under the federal Clean Air Act Amendments of 1990, new climate change regulations may provide us with a competitive advantage over other sources of energy, such as fuel oil and coal.

The trend of more expansive and stringent environmental legislation and regulations, including greenhouse gas regulation, could continue, resulting in increased costs of doing business and consequently affecting our profitability. To the extent laws are enacted or other governmental action is taken that restricts certain aspects of our business or imposes more stringent and costly operating, waste handling, disposal and cleanup requirements, our business and prospects could be adversely affected.

## **Litigation**

Our operations are subject to all operating hazards and risks normally incidental to handling, storing, transporting and otherwise providing for use by consumers of combustible liquids such as propane. As a result, at any given time we are a defendant in various legal proceedings and litigation arising in the ordinary course of business. We maintain insurance policies with insurers in amounts and with coverages and deductibles that our general partner believes are reasonable and prudent. However, we cannot give any assurance that this insurance will be adequate to protect us from all material expenses related to potential future claims for personal and property damage or that these levels of insurance will be available in the future at economical prices. In addition, the occurrence of a propane-related incident may have an adverse effect on the public's desire to use our products.



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**MANAGEMENT**

**Partnership Management and Governance**

NGL Energy Holdings LLC, our general partner, manages our operations and activities on our behalf through its directors and executive officers, which executive officers are also officers of our operating company. Our general partner is not elected by our unitholders and will not be subject to re-election on a regular basis in the future. Unitholders are not entitled to elect the directors of our general partner or directly or indirectly participate in our management or operations. Our general partner owes certain fiduciary duties to our unitholders, but our partnership agreement contains various provisions modifying and restricting such fiduciary duties. Our general partner is liable, as a general partner, for all of our debts (to the extent not paid from our assets), except for indebtedness or other obligations that are made specifically nonrecourse to it. Our general partner may cause us to incur indebtedness or other obligations that are nonrecourse to it, and we expect that it will do so.

***Board of Directors of our General Partner***

Upon the completion of this offering, the board of directors of our general partner will have four members. Our general partner intends to increase the size of the board to six members after the completion of this offering. The NGL Energy GP Investor Group will appoint all members to the board of directors of our general partner. We expect that, when the size of the board increases to six members, three of those directors will be independent as defined under the independence standards established by the NYSE and the SEC. The NYSE does not require a listed publicly traded limited partnership like us to have a majority of independent directors on the board of directors of our general partner.

In compliance with the requirements of the NYSE, the NGL Energy GP Investor Group will appoint one independent member to the board of directors of our general partner prior to the listing of our common units on the NYSE. The NGL Energy GP Investor Group will appoint a second independent director within 90 days of listing on the NYSE, and a third independent director within 12 months of listing on the NYSE.

In evaluating director candidates, the NGL Energy GP Investor Group will assess whether a candidate possesses the integrity, judgment, knowledge, experience, skill and expertise that are likely to enhance the ability of the board of directors of our general partner to manage and direct our affairs and business, including, when applicable, to enhance the ability of committees of the board to fulfill their duties. Our general partner has no minimum qualifications for director candidates. In general, however, the NGL Energy GP Investor Group will review and evaluate both incumbent and potential new directors in an effort to achieve diversity of skills and experience among the directors of our general partner and in light of the following criteria:

experience in business, government, education, technology or public interests;

high-level managerial experience in large organizations;

breadth of knowledge regarding our business or industry;

specific skills, experience or expertise related to an area of importance to us, such as energy production, consumption, distribution or transportation, government, policy, finance or law;

moral character and integrity;

commitment to our unitholders' interests;

ability to provide insights and practical wisdom based on experience and expertise;

ability to read and understand financial statements; and

ability to devote the time necessary to carry out the duties of a director, including attendance at meetings and consultation on partnership matters.

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Although our general partner does not have a policy in regard to the consideration of diversity in identifying director nominees, qualified candidates for nomination to the board are considered without regard to race, color, religion, gender, ancestry or national origin.

**Board Committees**

*Audit Committee.* In connection with the completion of this offering, the board of directors of our general partner will establish an audit committee. The audit committee will assist the board in its oversight of the integrity of our financial statements and our compliance with legal and regulatory requirements and partnership policies and controls. The audit committee will have the sole authority to, among other things:

retain and terminate our independent registered public accounting firm;

approve all auditing services and related fees and the terms thereof performed by our independent registered public accounting firm; and

establish policies and procedures for the pre-approval of all non-audit services and tax services to be rendered by our independent registered public accounting firm.

The audit committee will also be responsible for confirming the independence and objectivity of our independent registered public accounting firm. Our independent registered public accounting firm will be given unrestricted access to the audit committee and our management, as necessary.

In compliance with the requirements of the NYSE, a majority of the members of the audit committee will be independent directors within 90 days of listing on the NYSE and all of the members of the audit committee will be independent directors within 12 months of listing on the NYSE.

*Compensation Committee.* The NYSE does not require the board of directors of our general partner to establish a compensation committee. However, in order to conform to best governance practices, the board of directors of our general partner will establish a compensation committee in connection with the completion of this offering. The compensation committee will, among other things:

administer our long-term incentive plan and other equity and executive compensation plans;

establish and review general policies related to our compensation and benefits; and

determine and approve, or make recommendations to the board with respect to, the compensation and benefits of the directors and executive officers of our general partner.

*Conflicts Committee.* At least two members of the board of directors of our general partner will serve on a conflicts committee to review specific matters that may involve a conflict of interest. The conflicts committee will determine if the resolution of the conflict of interest is fair and reasonable to us. The members of the conflicts committee may not be officers, directors or employees of our general partner or any of its affiliates and must meet the independence standards established by the NYSE and the SEC to serve on an audit committee of a board of directors and other requirements in our partnership agreement. Any matters approved by the conflicts committee will be conclusively deemed to be fair and reasonable to us, approved by all of our partners and not a breach by our general partner of any duties it may owe us or our unitholders.

**Executive Officers**

Our executive officers will devote substantially all of their time to managing and conducting our operations.

Table of Contents**Board Leadership Structure and Role in Risk Oversight**

The board of directors of our general partner believes that whether the offices of chairman of the board and chief executive officer are combined or separated should be decided by the board, from time to time, in its business judgment after considering relevant circumstances. The board currently does not have a chairman.

The management of enterprise-level risk may be defined as the process of identifying, managing and monitoring events that present opportunities and risks with respect to the creation of value for our unitholders. The board has delegated to management the primary responsibility for enterprise-level risk management, while the board has retained responsibility for oversight of management in that regard. Management will offer an enterprise-level risk assessment to the board at least once every year.

**Directors and Executive Officers**

Directors of our general partner are appointed by the NGL Energy GP Investor Group for a term of one year and hold office until their successors have been duly elected and qualified or until the earlier of their death, resignation, removal or disqualification. Executive officers are appointed by, and serve at the discretion of, the board of directors of our general partner. The following table shows information regarding the current directors and director nominees of our general partner and our executive officers.

Name	Age	Position with NGL Energy Holdings LLC
H. Michael Krimbill	57	Chief Executive Officer and Director
Craig S. Jones	59	Chief Financial Officer, Treasurer and Secretary
Bradley K. Atkinson	56	Vice President, Business Development
Shawn W. Coady	49	Co-President and Chief Operating Officer, Retail Division and Director
Todd M. Coady	52	Co-President, Retail Division
Brian K. Pauling	60	Chief Operating Officer, Midstream Division
Stephen D. Tuttle	63	President, Midstream Division
Sharra Straight	47	Vice President and Comptroller
William A. Zartler	45	Director
James C. Kneale	59	Director Nominee

**H. Michael Krimbill.** Mr. Krimbill has served as our Chief Executive Officer since October 2010 and as a member of the board of directors of our general partner since its formation in September 2010. From February 2007 through September 2010, Mr. Krimbill managed private investments. Mr. Krimbill was the President and Chief Financial Officer of Energy Transfer Partners, L.P. from 2004 until his resignation in January 2007. Mr. Krimbill joined Heritage Propane Partners, L.P., the predecessor of Energy Transfer Partners, as Vice President and Chief Financial Officer in 1990. Mr. Krimbill was President of Heritage from 1999 to 2000 and President and Chief Executive Officer of Heritage from 2000 to 2005. Mr. Krimbill also served as a director of Energy Transfer Equity, the general partner of Energy Transfer Partners, from 2000 to January 2007. Mr. Krimbill is also currently a member of the boards of directors of Williams Partners L.P., where he is on the audit committee and is chairman of the conflicts committee, and Pacific Commerce Bank.

Mr. Krimbill brings leadership, oversight and financial experience to the board. Mr. Krimbill provides expertise in managing and operating a publicly traded partnership, including substantial expertise in successfully acquiring and integrating propane and midstream businesses. Mr. Krimbill also brings financial expertise to the board, including through his prior service as a chief financial officer and as a member of the audit committee of Williams. As a director for other public companies, Mr. Krimbill also provides cross-board experience.

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**Craig S. Jones.** Mr. Jones has served as our Chief Financial Officer since October 2010. Mr. Jones was the Chief Financial Officer of NGL Supply from October 2004 until the membership interests in NGL Supply were contributed to us as part of our formation transactions. Prior to joining NGL Supply, Mr. Jones served as the Vice President and Chief Financial Officer of Williams International Company from 1997 to 2002. Mr. Jones has a B.S. and an M.B.A. in Finance from Oklahoma State University.

**Bradley K. Atkinson.** Mr. Atkinson has served as our Vice President, Business Development since October 2010. From April 2007 through September 2010, Mr. Atkinson managed private investments. Mr. Atkinson was previously an officer of Energy Transfer Partners, L.P., serving as the Vice President – Corporate Development from August 2000 to March 2007 and as the Vice President of Administration from April 1998 to July 2000. Prior to joining Energy Transfer Partners, Mr. Atkinson held various positions at Mapco, Inc. from 1986 to 1998, where he managed the acquisitions and business development for Thermogas as the vice president of administration for the retail propane division for eight years. Mr. Atkinson has a B.S.B.A. in Accounting from Pittsburg State University and an M.B.A. from Oklahoma State University.

**Shawn W. Coady.** Dr. Coady has served as our Co-President and Chief Operating Officer, Retail Division since October 2010 and as a member of the board of directors of our general partner since its formation in September 2010. Dr. Coady has served as the Vice President of HOH since March 1989. HOH contributed its propane and propane-related assets to Hicks LLC, and the membership interests in Hicks LLC were contributed to us as part of our formation transactions. Dr. Coady was an executive officer of Bachtold Brothers, Incorporated, a family-owned company, when it filed for Chapter 7 bankruptcy protection in October 2005. Dr. Coady was also the President of Gifford from March 1989 until the membership interests in Gifford were contributed to us as part of our formation transactions. Dr. Coady has served as a director and as a member of the executive committee of the Illinois Propane Gas Association since 2004. Dr. Coady has also served as the Illinois state director of the National Propane Gas Association since 2004. Dr. Coady has a B.A. in Chemistry from Emory University and an O.D. from the University of Houston. Dr. Coady is the brother of Mr. Coady.

Dr. Coady brings valuable management and operational experience to the board. Dr. Coady has over 20 years of experience in the retail propane industry, and provides expertise in both acquisition and organic growth strategies. Dr. Coady also provides insight into developments and trends in the propane industry through his leadership roles in national and state propane gas associations.

**Todd M. Coady.** Mr. Coady has served as our Co-President, Retail Division since October 2010. Mr. Coady has served as the President of HOH since March 1989. HOH contributed its propane and propane-related assets to Hicks LLC, and the membership interests in Hicks LLC were contributed to us as part of our formation transactions. Mr. Coady was also the Vice President of Gifford from March 1989 until the membership interests in Gifford were contributed to us as part of our formation transactions. Mr. Coady was an executive officer of Bachtold Brothers, Incorporated, a family-owned company, when it filed for Chapter 7 bankruptcy protection in October 2005. Mr. Coady has a B.S. in Chemical Engineering from Cornell University and an M.B.A. from Rice University. Mr. Coady is the brother of Dr. Coady.

**Brian K. Pauling.** Mr. Pauling has served as our Chief Operating Officer, Midstream Division since October 2010. Mr. Pauling was the President and Chief Operating Officer of NGL Supply from 1997 until the membership interests in NGL Supply were contributed to us as part of our formation transactions. Mr. Pauling joined NGL Supply in 1988 as Vice President of Supply, Mid-Continent. Mr. Pauling previously served as Vice President of Mid-Continent Supply and Trading for Vanguard Petroleum Corporation from 1980 to 1988. Prior to joining Vanguard, he held various management positions in operations and marketing for Mapco, Inc. from 1971 to 1979, including serving as General Manager of Marketing and Business Development from 1978 to 1979.

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**Stephen D. Tuttle.** Mr. Tuttle has served as our President, Midstream Division since October 2010. Mr. Tuttle was the Chief Executive Officer of NGL Supply from 1997 until the membership interests in NGL Supply were contributed to us as part of our formation transactions. Mr. Tuttle joined NGL Supply in 1979 as Manager of Mid-Continent Marketing and was promoted to Vice President of Mid-Continent Marketing in 1985. He was the President and Chief Operating Officer of NGL Supply from 1991 to 1997. Mr. Tuttle began his career at Mapco, Inc. in 1974 as a distribution representative. Mr. Tuttle has a B.S. in Marketing from Oklahoma State University. He is also a member of the LPG Charity Fund board of directors and a governor of the Oklahoma State University Foundation.

**Sharra Straight.** Ms. Straight has served as our Vice President and Comptroller since October 2010. Ms. Straight was the Vice President of Finance and Controller of NGL Supply from 2005 until the membership interests in NGL Supply were contributed to us as part of our formation transactions. Ms. Straight joined NGL Supply in 2002 as Controller and Director of Accounting. Ms. Straight began her career at Texaco Inc. in 1986. She was promoted to positions of increasing responsibility at Texaco during the 1990s, becoming the Manager of NGL Financial Reporting and Planning in 2000. Ms. Straight has a B.S. in Accounting from Northeastern State University.

**William A. Zartler.** Mr. Zartler has served as a member of the board of directors of our general partner since its formation in September 2010. Mr. Zartler was the Chairman of the Board of NGL Supply from 2004 until the membership interests in NGL Supply were contributed to us as part of our formation transactions. Mr. Zartler is a founder and managing partner of Denham Capital Management LP, an energy and commodities-focused private equity firm. He is a Founding Partner of Denham, having been with the firm since its inception in 2004, and heads the firm's Energy Infrastructure Group. Prior to joining Denham, Mr. Zartler was an entrepreneur and a founder of Solaris Energy Services. Mr. Zartler has a B.S. in Mechanical Engineering from the University of Texas and an M.B.A. from Texas A&M University.

Mr. Zartler brings extensive financial and acquisition experience in the energy industry to the board. Mr. Zartler provides expertise in developing acquisition strategies and evaluating acquisition opportunities.

**James C. Kneale.** Mr. Kneale has agreed to join the board of directors of our general partner prior to or upon the date of the listing of our common units with the NYSE. Mr. Kneale served as President and Chief Operating Officer of Oneok Inc., from January 2007, and Oneok Partners, L.P., from May 2008, until his retirement in January 2010. After joining Oneok in 1981, Mr. Kneale served in various other roles including Chief Financial Officer from 2001 to December 2006. Mr. Kneale also served as a Director of ONEOK Partners, L.P. until his retirement in January 2010. Mr. Kneale currently manages private investments.

Mr. Kneale is a member of the American Institute of Certified Public Accountants and the Oklahoma Society of CPAs. In addition, Mr. Kneale has a B.B.A. in accounting in 1973 from West Texas A&M in Canyon, Texas.

Mr. Kneale brings extensive executive, financial and operational experience to the board. With nearly 30 years of experience in the natural liquids gas industry in numerous positions, Mr. Kneale provides valuable insight into our business and industry.

## Compensation Discussion and Analysis

The board of directors of our general partner has responsibility and authority for compensation-related decisions for our executive officers. Our executive officers are also officers of our operating company and are compensated directly by our operating company. While we reimburse our general partner and its affiliates for all expenses they make on our behalf, our executive officers do not receive any additional compensation for the services they provide to our general partner.

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We were formed on September 8, 2010 and we have a fiscal year-end of March 31. The year "2011" in the Compensation Discussion and Analysis and the summary compensation table refers to our fiscal year ended March 31, 2011. We had no operations from the date of our formation through September 30, 2010.

The historical compensation discussed in the Compensation Discussion and Analysis and disclosed in the summary compensation table was determined as part of the negotiations for our formation transactions. The board of directors of our general partner intends to establish a compensation committee in connection with the completion of this offering. The compensation committee will design and structure our executive compensation program and will be responsible for administering our Long-Term Incentive Plan.

Current and forward-looking statements in the Compensation Discussion and Analysis refer to the compensation philosophy, policy and practices of our general partner and the procedures our general partner either has adopted or intends to adopt. We note specific changes to our compensation policies that we expect to implement in connection with and following the completion of this offering.

Our "named executive officers" for 2011 were:

H. Michael Krimbill    Chief Executive Officer

Craig S. Jones    Chief Financial Officer

Shawn W. Coady    Co-President and Chief Operating Officer, Retail Division

Brian K. Pauling    Chief Operating Officer, Midstream Division

Stephen D. Tuttle    President, Midstream Division

### **Our Compensation Philosophy**

Our compensation philosophy emphasizes pay-for-performance, focused primarily on the ability to increase sustainable quarterly distributions to our unitholders. Pay-for-performance is based on a combination of our performance and the individual executive officer's contribution to our performance. We believe this pay-for-performance approach generally aligns the interests of our executive officers with the interests of our unitholders, and at the same time enables us to maintain a lower level of base overhead in the event our operating and financial performance do not meet our expectations.

Our executive compensation program will be designed to provide a total compensation package that allows us to:

attract and retain individuals with the background and skills necessary to successfully execute our business strategies;

motivate those individuals to reach short-term and long-term goals in a way that aligns their interests with the interests of our unitholders; and

reward success in reaching those goals.

### **Compensation Setting Process**

The historical compensation of our named executive officers was determined as part of the negotiations for our formation transactions. Following the formation of the compensation committee of the board of directors of our general partner, all compensation decisions for our

named executive officers will be made by the compensation committee.

The compensation committee will design a compensation program that emphasizes pay-for-performance. The compensation committee may examine the compensation practices of our peer companies and may also review compensation information from the propane industry generally to the



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extent we compete for executive talent from a broader group than our selected peer companies. However, any decisions regarding possible benchmarking will be made after the completion of this offering.

As part of the compensation setting process, the compensation committee may also review and participate in relevant compensation surveys and retain compensation consultants. We expect that our Chief Executive Officer will provide periodic recommendations to the compensation committee regarding the compensation of our other named executive officers.

**Elements of Executive Compensation**

For 2011, our named executive officers received only a base salary in the following amounts:

H. Michael Krimbill \$120,000

Craig S. Jones \$250,000

Shawn W. Coady \$300,000

Brian K. Pauling \$300,000

Stephen D. Tuttle \$300,000

The base salaries, which were effective as of January 1, 2011, were determined as part of the negotiations for our formation transactions. In setting the base salaries, the parties considered various factors, including the compensation needed to attract or retain each of our named executive officers, the historical compensation of our named executive officers, and each named executive officer's expected individual contribution to our performance. At the request of Mr. Krimbill, the parties agreed that he should receive a lower base salary than our other named executive officers because, as our Chief Executive Officer, a significant portion of his compensation should be performance-based to further align his interests with the interests of our unitholders.

As part of our pay-for-performance approach to executive compensation, we expect that the future compensation of our executive officers will include a significant component of incentive compensation based on our performance. We expect to use three primary elements of compensation in our executive compensation program:

<b>Element</b>	<b>Primary Purpose</b>	<b>How Amount Determined</b>
Base Salary	Fixed income to compensate executive officers for their level of responsibility, expertise and experience	Based on competition in the marketplace for executive talent and abilities
Cash Bonus Awards	Rewards the achievement of specific annual financial and operational performance goals	Based on the named executive officer's relative contribution to achieving or exceeding annual goals
Long-Term Equity Incentive Awards	Recognizes individual contributions to our performance Motivates and rewards the achievement of long-term performance goals, including increasing the market price of our common units and the quarterly distributions to our unitholders Provides a forfeitable long-term incentive to encourage executive retention	Based on the named executive officer's expected contribution to long-term performance goals



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The compensation committee will determine the mix of compensation, both among short-term and long-term and cash and non-cash compensation, appropriate for each executive officer.

***Base Salary***

We believe the base salaries for our named executive officers are generally competitive within the master limited partnership market, but are moderate relative to base salaries paid by companies with which we compete for similar executive talent across the broad spectrum of the energy industry. We do not expect to make automatic annual adjustments to base salary. Our compensation committee will review the base salaries on an annual basis and may make adjustments as necessary to maintain a competitive executive compensation structure. As part of its review, the compensation committee may examine the compensation of executive officers in similar positions with similar responsibilities at peer companies identified by the compensation committee or at companies within the propane industry with which we generally compete for executive talent.

***Bonus Awards***

We have not made and do not expect to make any bonus awards to our named executive officers for 2011. We expect that annual bonus awards will be discretionary. We intend to review annual bonus awards for the named executive officers annually to determine award payments for the previous fiscal year, as well as to establish award opportunities for the current fiscal year. At the beginning of each fiscal year, we intend to meet with each executive officer to discuss our performance goals for the year and what each executive officer is expected to contribute to help us achieve those performance goals.

***Long-Term Incentive Compensation***

Our general partner intends to adopt the NGL Energy Partners LP 2011 Long-Term Incentive Plan for the employees, directors and consultants of our general partner and its affiliates who perform services for us. To date, no awards have been made under the Long-Term Incentive Plan. The description of the Long-Term Incentive Plan set forth below is a summary of the material features of the Long-Term Incentive Plan. This summary, however, does not purport to be a complete description of all the provisions of the Long-Term Incentive Plan. This summary is qualified in its entirety by reference to the Long-Term Incentive Plan.

The Long-Term Incentive Plan will consist of restricted units, phantom units, unit options, unit appreciation rights and other unit-based awards. Prior to the completion of this offering, the Long-Term Incentive Plan will limit the number of common units that may be delivered pursuant to awards under the plan to 10% of our issued and outstanding common units as of the date of the adoption of the plan. Immediately after the completion of this offering, the number of common units that may be delivered pursuant to awards under the plan is limited to 10% of the issued and outstanding common and subordinated units. The maximum number of units deliverable under the plan automatically increases to 10% of the issued and outstanding common and subordinated units immediately after each issuance of common units, unless the plan administrator determines to increase the maximum number of units deliverable by a lesser amount. Units withheld to satisfy tax withholding obligations will not be considered to be delivered under the Long-Term Incentive Plan. In addition, if an award is forfeited, canceled, exercised, paid or otherwise terminates or expires without the delivery of units, the units subject to such award will again be available for new awards under the Long-Term Incentive Plan. Common units to be delivered pursuant to awards under the Long-Term Incentive Plan may be newly issued common units, common units acquired by us in the open market, common units acquired by us from any other person, or any combination of the foregoing. If we issue new common units upon vesting of the phantom units, the total number of common units outstanding will increase.

*Administration.* The Long-Term Incentive Plan will be administered by the board of directors and compensation committee of our general partner. The board of directors of our general partner may

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terminate or amend the Long-Term Incentive Plan at any time with respect to any units for which a grant has not yet been made. Our board of directors also has the right to alter or amend the Long-Term Incentive Plan or any part of the Long-Term Incentive Plan from time to time, including increasing the number of units that may be granted, subject to unitholder approval as may be required by the exchange upon which the common units are listed at that time, if any. No change may be made in any outstanding grant that would materially reduce the benefits of the participant without the consent of the participant. The Long-Term Incentive Plan will expire upon its termination by the board of directors or, if earlier, when no units remain available under the Long-Term Incentive Plan for awards. Upon termination of the Long-Term Incentive Plan, awards then outstanding will continue pursuant to the terms of their grants.

*Restricted Units.* A restricted unit is a common unit that vests over a period of time and that during such time is subject to forfeiture. In the future, the plan administrator may determine to make grants of restricted units under the Long-Term Incentive Plan to employees, directors and consultants, containing such terms as the plan administrator determines. The plan administrator will determine the period over which restricted units will vest. The plan administrator, in its discretion, may base its determination upon the achievement of specified financial goals or other events. In addition, the restricted units may vest upon a change in control. Distributions made on restricted units may be subjected to vesting provisions. If a grantee's employment, consulting arrangement or membership on the board of directors terminates during the restricted period for any reason, the grantee's restricted units will be automatically forfeited unless, and to the extent, the plan administrator or the terms of the award agreement provide otherwise.

*Phantom Units.* A phantom unit entitles the grantee to receive a common unit upon the vesting of the phantom unit or, in the discretion of the plan administrator, cash equivalent to the fair market value of a common unit. In the future, the plan administrator may determine to make grants of phantom units under the Long-Term Incentive Plan to employees, consultants and directors containing such terms as the plan administrator determines. The plan administrator will determine the period over which phantom units granted will vest. The plan administrator, in its discretion, may base its determination upon the achievement of specified financial goals or other events. In addition, the phantom units may vest upon a change in control. If a grantee's employment, consulting arrangement or membership on the board of directors terminates for any reason during the restricted period, the grantee's phantom units will be automatically forfeited unless, and to the extent, the plan administrator or the terms of the award agreement provide otherwise.

The plan administrator, in its discretion, may grant distribution equivalent rights, or DERs, with respect to a phantom unit. DERs entitle the grantee to receive a cash payment equal to the cash distributions made on a common unit during the period the phantom unit is outstanding. The plan administrator will establish whether the DERs are paid currently, when the tandem phantom unit vests or on some other basis.

We intend the grant of restricted units and issuance of any common units upon vesting of the phantom units under the Long-Term Incentive Plan to serve as a means of incentive compensation for performance and not primarily as an opportunity to participate in the equity appreciation of our common units. Therefore, plan participants will not pay any consideration for the common units they receive, and we will receive no remuneration for the units.

*Unit Options and Unit Appreciation Rights.* The Long-Term Incentive Plan also permits the grant of options covering common units and unit appreciation rights. Unit options represent the right to purchase a number of common units at a specified exercise price. Unit appreciation rights represent the right to receive the appreciation in the value of a number of common units over a specified exercise price, either in cash or in common units as determined by the plan administrator. Unit options and unit

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appreciation rights may be granted to such eligible individuals and with such terms as the plan administrator may determine that are not inconsistent with the Long-Term Incentive Plan. However, the exercise price of a unit option or unit appreciation right may not be less than the fair market value of a common unit on the date of grant.

In general, unit options and unit appreciation rights will become exercisable over a period determined by the plan administrator. The plan administrator, in its discretion, may provide that unit options and unit appreciation rights will become exercisable upon a change in control. If a grantee's employment, consulting arrangement or membership on the board of directors terminates for any reason during the restricted period, the grantee's unvested unit options and unit appreciation rights will be automatically forfeited unless, and to the extent, the award agreement or plan administrator provides otherwise. The plan administrator will determine the method or methods that may be used to pay the exercise price of unit options. The availability of unit options and unit appreciation rights is intended to furnish additional compensation to participants and to align their interests with those of our unit holders.

*U.S. Federal Income Tax Consequences of Awards Under the Long-Term Incentive Plan.* Generally, when restricted units, phantom units, unit options or unit appreciation rights are granted, there are no income tax consequences for the participant or us. Upon the payment to the participant of common units and/or cash in respect of the award of phantom units or the release of restrictions on restricted units, including any distributions that have been made thereon, the participant recognizes compensation equal to the fair market value of the cash and/or units as of the date of delivery or release. A participant generally recognizes compensation income with respect to unit options and unit appreciation rights at the time the award is exercised in an amount equal to the excess of the fair market value of a unit on the date of exercise over the exercise price of the award, multiplied by the number of units subject to the award. Unit awards that are not subject to vesting restrictions or deferral typically represent taxable income on the date of grant. Unless other arrangements are made, the plan administrator is authorized to withhold from any payment due under any award or from any compensation or other amount owing to a participant, an amount (in cash, units, units that would otherwise be issued pursuant to the award, or other property) of any applicable taxes payable with respect to the grant of an award, its settlement, its exercise or the lapse of restrictions applicable to an award or in connection with any payment relating to an award or the transfer of an award and to take such other actions as may be necessary to satisfy the withholding obligations with respect to an award.

***Severance and Change in Control Benefits***

We do not provide any severance or change of control benefits to our executive officers.

***401(k) Plan***

We expect to establish a defined contribution 401(k) plan to assist our eligible employees in saving for retirement on a tax-deferred basis. The 401(k) plan will permit all eligible employees, including our named executive officers, to make voluntary pre-tax contributions to the plan, subject to applicable tax limitations. We may also make a discretionary employer matching contribution to the plan for eligible employees subject to certain limitations under federal law. Our matching contribution, if any, will not exceed 3% of an eligible employee's contributions to the plan and will vest over five years.

During 2011, Mr. Jones, Mr. Pauling and Mr. Tuttle continued to participate in a defined contribution 401(k) plan established by NGL Supply. Under the NGL Supply 401(k) plan, eligible employees receive a qualified non-elective contribution to the plan equal to 3% of the employee's compensation and NGL Supply makes discretionary profit-sharing contributions to the plan equal to 2% of the employee's compensation, in each case subject to certain limitations under federal law. Both the qualified non-elective contributions and the discretionary profit sharing contributions vest immediately. During 2011, Dr. Coady continued to participate in a defined contribution 401(k) plan established by Hicksgas. Under the Hicksgas 401(k) plan, Hicksgas makes discretionary employer matching contributions not to exceed

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3% of an eligible employee's compensation, subject to certain limitations under federal law. The matching Hicksgas contributions vested over six years. The NGL Supply and Hicksgas 401(k) plans will be merged in connection with the establishment of our 401(k) plan.

***Other Benefits***

We do not maintain a defined benefit or pension plan for our executive officers, because we believe such plans primarily reward longevity rather than performance. We provide a basic benefits package available to all full-time employees, which includes a 401(k) plan and medical, dental, disability and life insurance.

**Employment Agreements**

In connection with our formation, we entered into a letter agreement with Dr. Coady and Mr. Coady. The letter agreement provides that Dr. Coady may not be terminated as the Co-President and Chief Operating Officer, Retail Division of our general partner and Mr. Coady may not be terminated as Co-President, Retail Division of our general partner before October 14, 2011, unless such termination is for cause.

We currently do not intend to enter into employment agreements with any of our other executive officers.

**Deductibility of Compensation**

We believe that the compensation paid to the named executive officers is generally fully deductible for federal income tax purposes. We are a limited partnership and we do not meet the definition of a "corporation" subject to deduction limitations under Section 162(m) of the Code. Nonetheless, the taxable compensation paid to each of our named executive officers in 2011 was substantially less than the Section 162(m) threshold of \$1,000,000.

**Relation of Compensation Policies and Practices to Risk Management**

We expect our compensation arrangements to contain a number of design elements that serve to minimize the incentive for taking excessive or inappropriate risk to achieve short-term, unsustainable results. In combination with our risk-management practices, we do not believe that risks arising from our compensation policies and practices for our employees are reasonably likely to have a material adverse effect on us.

Table of Contents**Summary Compensation Table for 2011**

The following table includes the compensation earned by our named executive officers for the period from October 1, 2010 through March 31, 2011.

Name and Position	Fiscal Year	Salary	Bonus	Stock Awards	Option/SAR Award	Non-Equity Incentive Plan Compensation			All Other Compensation(1)	Total
						Stock	Nonqualified	Deferred		
H. Michael Krimbill Chief Executive Officer	2011	\$ 54,538	\$	\$	\$	\$	\$	\$	\$	\$ 54,538
Craig S. Jones Chief Financial Officer	2011	\$ 118,830	\$	\$	\$	\$	\$	\$	3,077	\$ 121,907
Shawn W. Coady Co-President and Chief Operating Officer, Retail Division	2011	\$ 150,000	\$	\$	\$	\$	\$	\$	17,440	\$ 167,440
Brian K. Pauling Chief Operating Officer, Midstream Division	2011	\$ 143,638	\$	\$	\$	\$	\$	\$	3,692	\$ 147,330
Stephen D. Tuttle President, Midstream Division	2011	\$ 143,638	\$	\$	\$	\$	\$	\$	3,692	\$ 147,330

(1)

The amounts in this column for Mr. Jones, Mr. Pauling, and Mr. Tuttle reflect profit-sharing contributions made by NGL Supply to the NGL Supply 401(k) plan. The amount in this column for Dr. Coady reflects (i) \$2,077 in matching 401(k) contributions made by Hicksgas to the Hicksgas 401(k) plan, (ii) \$8,135 for payment of health care premiums, and (iii) \$7,228 for the aggregate incremental cost of the use of a company car, including depreciation, maintenance, insurance and fuel.

**Director Compensation**

Our officers or employees who also serve as directors of our general partner will not receive additional compensation for their service as a director. Directors of our general partner who are not our officers or employees will receive compensation as "non-employee directors."

We anticipate that the board of directors of our general partner, upon recommendation from the compensation committee, will adopt a director compensation program under which non-employee directors will be compensated for their service as directors. We expect that each non-employee director will receive an annual retainer. They may also receive an additional retainer for service as the chair of a standing committee and meeting attendance fees. We may also grant equity-based awards to non-employee directors on an annual basis. Non-employee directors will be reimbursed for all out-of-pocket expenses incurred in connection with attending board or committee meetings. Each director will be indemnified for his actions associated with being a director to the fullest extent permitted under Delaware law.

**Compensation Committee Interlocks and Insider Participation**

Although our general partner intends to establish a compensation committee in connection with the completion of this offering, the entire board of directors of our general partner made compensation-related decisions for our executive officers during 2011. Dr. Coady is a member of the board of directors and an executive officer of our general partner, and his brother Mr. Coady is an executive officer of our general partner. Dr. Coady and Mr. Coady also serve as officers and directors of HOH, a family-owned company. Both Dr. Coady and Mr. Coady participate in

the compensation-setting process of the HOH board of directors.



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**SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The following table sets forth the beneficial ownership of our units following the completion of this offering and assuming the underwriters do not exercise their option to purchase additional common units from us by:

each person or group of persons known by us to be a beneficial owner of more than 5% of our outstanding units;

each director of our general partner;

each executive officer of our general partner; and

all directors and executive officers of our general partner as a group.

Name and Address of Beneficial Owner(1)	Percentage of Common		Percentage of Subordinated		Percentage of Total Common and Subordinated
	Common Units to be Beneficially Owned	Units to be Beneficially Owned(2)	Subordinated Units to be Beneficially Owned	Units to be Beneficially Owned(2)	Units to be Beneficially Owned(2)
NGL Holdings, Inc.(3)	1,307,992	15.36%	1,544,100	26.09%	19.76%
Hicks Oils & Hicksgas, Incorporated(4)	1,905,405	22.38%	2,249,352	38.00%	28.79%
H. Michael Krimbill(5)	421,720	4.95%	497,846	8.41%	6.37%
Craig S. Jones(6)	21,065	0.25%	24,867	0.42%	0.32%
Bradley K. Atkinson(7)	281,147	3.30%	331,898	5.61%	4.25%
Shawn W. Coady(8)	1,905,405	22.38%	2,249,352	38.00%	28.79%
Todd M. Coady(9)	1,905,405	22.38%	2,249,352	38.00%	28.79%
Brian K. Pauling(10)	277,756	3.26%	327,894	5.54%	4.20%
Stephen D. Tuttle(11)	277,756	3.26%	327,894	5.54%	4.20%
Sharra Straight(12)	15,854	0.19%	18,715	0.32%	0.24%
William A. Zartler(13)	1,307,992	15.36%	1,544,100	26.09%	19.76%
All directors and executive officers as a group (nine persons)	4,508,695	52.95%	5,322,566	89.92%	68.11%

\*

Less than 1.0%

(1)

Unless otherwise indicated, the address for all beneficial owners in this table is 6120 South Yale Avenue, Suite 805, Tulsa, Oklahoma 74136.

(2)

Based on 8,514,222 common units and 5,919,346 subordinated units outstanding.

(3)

The address for NGL Holdings, Inc. is c/o Denham Capital Management LP, 200 Clarendon St., 25<sup>th</sup> Floor, Boston, MA 02116. William A. Zartler, a member of the board of directors of our general partner, is the sole director of NGL Holdings, Inc. and as such has sole voting and dispositive power with respect to our common and subordinated units which are owned by NGL Holdings, Inc., but disclaims beneficial ownership except to the extent of his pecuniary interest therein. NGL Holdings, Inc. is 100% owned by Denham Commodity Partners Fund II LP, which is managed by its general partner, Denham Commodity Partners GP II LP, which is

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owned by the employees of Denham Capital Management LP and is controlled by its general partner, Denham GP II LLC, which is in turn also owned by an employee of Denham Capital Management LP. Denham Capital Management LP, of which Mr. Zartler is a founder and managing partner, acts as the investment advisor for Denham Commodity Partners Fund II LP. NGL Holdings, Inc. also owns a 21.96% interest in our general partner.

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- (4) The address for Hicks Oils & Hicksgas, Incorporated is 204 N. Route 54, Roberts, Illinois 60962. Hicks Oils & Hicksgas, Incorporated is owned 50.03% by Shawn W. Coady and 49.97% by Todd M. Coady. Each may be deemed to have voting and dispositive power over these units, but disclaims such beneficial ownership except to the extent of his pecuniary interest therein.
- (5) These units are owned directly by Krim2010, LLC. Krimbill Enterprises LP, H. Michael Krimbill and James E. Krimbill own 90.89%, 4.05%, and 5.06% of Krim2010, LLC, respectively. H. Michael Krimbill exercises the sole voting and dispositive power for Krimbill Enterprises LP. H. Michael Krimbill may be deemed to have voting and dispositive power over these units, but disclaims such beneficial ownership except to the extent of his pecuniary interest therein. H. Michael Krimbill also owns a 14.64% interest in our general partner through KrimGP2010, LLC, of which he owns 100% of the membership interests.
- (6) Craig S. Jones also owns a 0.35% interest in our general partner.
- (7) These units are owned directly by Atkinson Investors, LLC. Bradley K. Atkinson Family Investments owns 100% of Atkinson Investors, LLC. Bradley K. Atkinson Family Investments is owned 69% by Bradley K. Atkinson and Cheryl Atkinson, 15% by Jennifer Lynn Atkinson Trust, 15% by Michael Steven Atkinson Trust, and 1% by its general partner, Bradley K. Atkinson Family Management LLC, [of which Bradley K. Atkinson is the sole member]. Bradley K. Atkinson may be deemed to have voting and dispositive power over these units, but disclaims such beneficial ownership except to the extent of his pecuniary interest therein. Atkinson Investors, LLC also owns a 9.76% interest in our general partner.
- (8) These units are owned directly by Hicks Oils & Hicksgas, Incorporated, in which Shawn W. Coady owns a 50.03% interest. Shawn W. Coady disclaims beneficial ownership except to the extent of his pecuniary interest therein. Shawn W. Coady also owns a 15.50% interest in our general partner through Coady Enterprises, LLC, of which he owns 100% of the membership interests.
- (9) These units are owned directly by Hicks Oils & Hicksgas, Incorporated, in which Todd M. Coady owns a 49.97% interest. Todd M. Coady disclaims beneficial ownership except to the extent of his pecuniary interest therein. Todd M. Coady also owns a 15.50% interest in our general partner through Thorndike, LLC, of which he owns 100% of the membership interests.
- (10) Brian K. Pauling also owns a 4.67% interest in our general partner.
- (11) Stephen D. Tuttle also owns a 4.67% interest in our general partner.
- (12) Sharra Straight also owns a 0.27% interest in our general partner.
- (13) These units are owned directly by NGL Holdings, Inc. William A. Zartler, a member of the board of directors of our general partner, is the sole director of NGL Holdings, Inc. and as such has sole voting and dispositive power with respect to our common units which are owned by NGL Holdings, Inc., but disclaims beneficial ownership except to the extent of his pecuniary interest therein. NGL Holdings, Inc. is 100% owned by Denham Commodity Partners Fund II LP, which is managed by its general partner, Denham Commodity Partners GP II LP, which is owned by the employees of Denham Capital Management LP and is controlled by its general partner, Denham GP II LLC, which is in turn also owned by an employee of Denham Capital Management LP. Denham Capital Management LP, of which Mr. Zartler is a founder and managing partner, acts as the investment advisor for Denham Commodity Partners Fund II LP. NGL Holdings, Inc. also owns a 21.96% interest in our general partner.

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**CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS**

After this offering, and assuming the underwriters do not exercise their option to purchase additional common units from us, our general partner and its affiliates will own an aggregate of 5,014,222 common units and 5,919,346 subordinated units, representing an aggregate 75.7% limited partner interest in us. In addition, our general partner will own a 0.1% general partner interest in us and all of our incentive distribution rights.

**Distributions and Payments to Our General Partner and Its Affiliates**

Our general partner and its affiliates do not receive any management fee or other compensation for the management of our business and affairs, but they are reimbursed for all expenses that they incur on our behalf, including general and administrative expenses. Our general partner determines the amount of these expenses. In addition, our general partner owns the 0.1% general partner interest and all of the incentive distribution rights. Our general partner is entitled to receive incentive distributions if the amount we distribute with respect to any quarter exceeds levels specified in our partnership agreement.

The following table summarizes the distributions and payments to be made by us to our general partner and its affiliates in connection with our ongoing operation and any liquidation of NGL Energy Partners LP. These distributions and payments were determined by and among affiliated entities and, consequently, are not the result of arm's length negotiations.

**Pre-IPO Stage**

The consideration received by our general partner and its affiliates prior to or in connection with this offering	5,014,222 common units;
	5,919,346 subordinated units;
	a 0.1% general partner interest; and
	the incentive distribution rights.

**Post-IPO Stage**

Distributions of available cash to our general partner and its affiliates	We will generally make cash distributions 99.9% to our unitholders pro rata, including the NGL Energy LP Investor Group as the holders of an aggregate 10,933,568 common units and subordinated units, and 0.1% to our general partner, assuming it makes any capital contributions necessary to maintain its 0.1% general partner interest in us. In addition, if distributions exceed the minimum quarterly distribution and other higher target distribution levels, our general partner will be entitled to increasing percentages of the distributions, up to 48.1% of the distributions above the highest target distribution level.
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Assuming we have sufficient available cash to pay the full minimum quarterly distribution on all of our outstanding units for four quarters, our general partner would receive an annual distribution of approximately \$0.02 million on its general partner interest and the NGL Energy LP Investor Group would receive an aggregate annual distribution of approximately \$14.76 million on their common and subordinated units.

If our general partner elects to reset the target distribution levels, it will be entitled to receive common units and to maintain its general partner interest. Please read "Provisions of our Partnership Agreement Relating to Cash Distributions General Partner's Right to Reset Incentive Distribution Levels."

Payments to our general partner and its affiliates

Our general partner and its affiliates will not receive any management fee or other compensation for the management of our business and affairs, but they will be reimbursed for all expenses that they incur on our behalf, including general and administrative expenses. As the sole purpose of the general partner is to act as our general partner, we expect that substantially all of the expenses of our general partner will be incurred on our behalf and reimbursed by us or our subsidiaries. Our general partner will determine the amount of these expenses. We estimate that we will reimburse our general partner for approximately \$250,000 annually for compensation, travel and entertainment expenses for the non-employee directors serving on the board of directors of our general partner and the cost of director and officer liability insurance.

Withdrawal or removal of our general partner

If our general partner withdraws or is removed, its general partner interest and its incentive distribution rights will either be sold to the new general partner for cash or converted into common units, in each case for an amount equal to the fair market value of those interests. Please read "The Partnership Agreement Withdrawal or Removal of Our General Partner."

**Liquidation Stage**

Liquidation

Upon our liquidation, our partners, including our general partner, will be entitled to receive liquidating distributions according to their respective capital account balances.

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**Agreements with Affiliates**

We intend to enter into a shared services agreement with HOH to provide management, accounting and office services.

We intend to enter into a registration rights agreement with the members of NGL Energy LP Investor Group prior to the completion of this offering. Please see "Units Eligible for Future Sale" for more information.

**Review, Approval or Ratification of Transactions with Related Persons**

We expect to adopt a Code of Business Conduct and Ethics that will set forth our policies for the review, approval and ratification of transactions with related persons prior to the completion of this offering. Under the Code of Business Conduct and Ethics, a director would be expected to bring to the attention of the chief executive officer or the board of directors of our general partner any conflict or potential conflict of interest that may arise between the director or any affiliate of the director, on the one hand, and us or our general partner on the other. The resolution of any such conflict or potential conflict will be addressed in accordance with our general partner's organizational documents and the provisions of our partnership agreement. The resolution may be determined by disinterested directors, the board and/or a "conflicts committee" meeting the definitional requirements for such a committee under our partnership agreement.

Upon our adoption of the Code of Business Conduct and Ethics, any executive officer of our general partner will be required to avoid conflicts of interest unless approved by the board of directors.

In the case of any sale of equity by us to an owner or affiliate of an owner of our general partner, we anticipate that our practice will be to obtain general approval of the board of directors for the transaction. Our general partner's board may delegate authority to set the specific terms of such a sale of equity to a pricing committee.

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**CONFLICTS OF INTEREST AND FIDUCIARY DUTIES**

**Conflicts of Interest**

Conflicts of interest exist and may arise in the future as a result of the relationships between our general partner and its affiliates on the one hand, and our partnership and our limited partners, on the other hand. The directors and officers of our general partner have fiduciary duties to manage our general partner in a manner beneficial to its owners. At the same time, our general partner has a fiduciary duty to manage our partnership in a manner beneficial to us and our unitholders.

Whenever a conflict arises between our general partner or its affiliates, on the one hand, and us and our limited partners, on the other hand, our general partner will resolve that conflict. Our partnership agreement contains provisions that modify and limit our general partner's fiduciary duties to our unitholders. Our partnership agreement also restricts the remedies available to our unitholders for actions taken by our general partner that, without those limitations, might constitute breaches of its fiduciary duty.

Our general partner will not be in breach of its obligations under our partnership agreement or its fiduciary duties to us or our unitholders if the resolution of the conflict is:

approved by the conflicts committee, although our general partner is not obligated to seek such approval;

approved by the vote of a majority of the outstanding common units, excluding any common units owned by our general partner or any of its affiliates;

on terms no less favorable to us than those generally being provided to or available from unrelated third parties; or

fair and reasonable to us, taking into account the totality of the relationships among the parties involved, including other transactions that may be particularly favorable or advantageous to us.

Our general partner may, but is not required under our partnership agreement to, seek the approval of such resolution from the conflicts committee. In connection with a situation involving a conflict of interest, any determination by our general partner involving the resolution of the conflict of interest must be made in good faith, provided that, if our general partner does not seek approval from the conflicts committee and its board of directors determines that the resolution or course of action taken with respect to the conflict of interest satisfies either of the standards set forth in the third and fourth bullet points above, then it will be presumed that, in making its decision, the board of directors acted in good faith, and in any proceeding brought by or on behalf of any limited partner or the partnership, the person bringing or prosecuting such proceeding will have the burden of overcoming such presumption. Unless the resolution of a conflict is specifically provided for in our partnership agreement, our general partner or the conflicts committee may consider any factors that it determines in good faith to be appropriate when resolving a conflict. When our partnership agreement provides that someone act in good faith, our partnership agreement requires that the person subjectively believe he is acting in the best interests of the partnership or, with respect to matters involving the relative rights and privileges of the holders of partnership interests, consistently with the intent of the provisions of our partnership agreement.

Conflicts of interest could arise in the situations described below, among others.

***Our general partner and its affiliates are allowed to take into account the interests of parties other than us in resolving conflicts of interest.***

Our partnership agreement contains provisions that reduce the fiduciary standards to which our general partner would otherwise be held by state fiduciary duty law. For example, our partnership agreement permits our general partner to make a number of decisions in its individual capacity, as

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opposed to in its capacity as our general partner. This entitles our general partner to consider only the interests and factors that it desires, and it has no duty or obligation to give any consideration to any interest of, or factors affecting, us, our affiliates or our limited partners. Examples include our general partner's limited call right, its voting rights with respect to the units it owns and its determination whether or not to consent to any merger or consolidation of the partnership.

***Affiliates of our general partner are not restricted from competing with us.***

Our partnership agreement provides that our general partner will be restricted from engaging in any business activities other than acting as our general partner (or as general partner of another company of which we are a partner or member) or those activities incidental to its ownership of interests in us. However, our partnership agreement does not restrict the ability of affiliates of our general partner to engage in any activities, including propane related activities, such as the retail sale of propane or trading, transportation, storage and wholesale distribution of propane.

Pursuant to the terms of our partnership agreement, the doctrine of corporate opportunity, or any analogous doctrine, will not apply to our general partner or any of its affiliates, including its executive officers and directors. Any such person or entity that becomes aware of a potential transaction, agreement, arrangement or other matter that may be an opportunity for us will not have any duty to communicate or offer such opportunity to us. Any such person or entity will not be liable to us or to any limited partner for breach of any fiduciary duty or other duty by reason of the fact that such person or entity pursues or acquires such opportunity for itself, directs such opportunity to another person or entity or does not communicate such opportunity or information to us. Therefore, affiliates of our general partner may compete with us for investment opportunities and may own an interest in entities that compete with us.

***Our partnership agreement limits the liability of and reduces the fiduciary duties owed by our general partner, and also restricts the remedies available to our unitholders for actions that, without those limitations, might constitute breaches of its fiduciary duty.***

In addition to the provisions described above, our partnership agreement contains provisions that restrict the remedies available to our unitholders for actions that might otherwise constitute breaches of our general partner's fiduciary duty. For example, our partnership agreement:

provides that our general partner will not have any liability to us or our unitholders for decisions made in its capacity as a general partner so long as such decisions are made in good faith, meaning it subjectively believed that the decision was in, or not opposed to, the best interests of our partnership;

provides generally that affiliated transactions and resolutions of conflicts of interest not approved by the conflicts committee and not involving a vote of the common unitholders must either be (i) on terms no less favorable to us than those generally provided to or available from unrelated third parties or (ii) "fair and reasonable" to us, as determined by our general partner in good faith, provided that, in determining whether a transaction or resolution is "fair and reasonable," our general partner may consider the totality of the relationships between the parties involved, including other transactions that may be particularly favorable or advantageous to us; and

provides that our general partner and its officers and directors will not be liable for monetary damages to us, or our limited partners resulting from any act or omission unless there has been a final and non-appealable judgment entered by a court of competent jurisdiction determining that our general partner or its officers or directors, as the case may be, acted in bad faith or engaged in fraud or willful misconduct or, in the case of a criminal matter, acted with knowledge that their conduct was criminal.



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***Except in limited circumstances, our general partner has the power and authority to conduct our business without unitholder approval.***

Under our partnership agreement, our general partner has full power and authority to do all things, other than those items that require unitholder approval or with respect to which our general partner has sought conflicts committee approval, on such terms as it determines to be necessary or appropriate to conduct our business including, but not limited to, the following:

the making of any expenditures, the lending or borrowing of money, the assumption or guarantee of or other contracting for, indebtedness and other liabilities, the issuance of evidences of indebtedness, including indebtedness that is convertible into our securities, and the incurring of any other obligations;

the purchase, sale or other acquisition or disposition of our securities, or the issuance of additional options, rights, warrants and appreciation rights relating to our securities;

the mortgage, pledge, encumbrance, hypothecation or exchange of any or all of our assets;

the negotiation, execution and performance of any contracts, conveyances or other instruments;

the distribution of our cash;

the selection and dismissal of employees and agents, outside attorneys, accountants, consultants and contractors and the determination of their compensation and other terms of employment or hiring;

the maintenance of insurance for our benefit and the benefit of, among others, our subsidiaries and partners;

the formation of, or acquisition of an interest in, the contribution of property to, and the making of loans to, any limited or general partnership, joint venture, corporation, limited liability company or other entity;

the control of any matters affecting our rights and obligations, including the bringing and defending of actions at law or in equity, otherwise engaging in the conduct of litigation, arbitration or mediation and the incurring of legal expense, the settlement of claims and litigation;

the indemnification of any person against liabilities and contingencies to the extent permitted by law;

the making of tax, regulatory and other filings, or the rendering of periodic or other reports to governmental or other agencies having jurisdiction over our business or assets; and

the entering into of agreements with any of its affiliates to render services to us or to itself in the discharge of its duties as our general partner.

Our partnership agreement provides that our general partner must act in "good faith" when making decisions on our behalf, and our partnership agreement further provides that in order for a determination to be made in "good faith," our general partner must subjectively believe that the determination is in, or not opposed to, our best interests. Please read "The Partnership Agreement - Voting Rights" for information regarding matters that require unitholder approval.



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***Our general partner determines the amount and timing of asset purchases and sales, capital expenditures, borrowings, issuances of additional partnership securities and the creation, reduction or increase of reserves, each of which can affect the amount of cash that is distributed to our unitholders.***

The amount of cash that is available for distribution to our unitholders is affected by the decisions of our general partner regarding such matters as:

the amount and timing of asset purchases and sales;

cash expenditures and the amount of maintenance capital expenditures;

borrowings;

the issuance of additional units; and

the creation, reduction or increase of reserves in any quarter.

Our general partner determines the amount and timing of any capital expenditures and whether a capital expenditure is classified as a maintenance capital expenditure, which reduces operating surplus, or an expansion capital expenditure, which does not reduce operating surplus. This determination can affect the amount of cash that is distributed to our unitholders and to our general partner and the ability of the subordinated units to convert into common units.

In addition, our general partner may use an amount, initially equal to \$20.0 million, which would not otherwise constitute available cash from operating surplus, to permit the payment of cash distributions on its subordinated units and incentive distribution rights. All of these actions may affect the amount of cash distributed to our unitholders and our general partner and may facilitate the conversion of subordinated units into common units. Please read "Provisions of Our Partnership Agreement Relating to Cash Distributions."

In addition, borrowings by us and our affiliates do not constitute a breach of any duty owed by our general partner to our unitholders, including borrowings that have the purpose or effect of:

enabling our general partner or its affiliates to receive distributions on any subordinated units held by them or the incentive distribution rights; or

accelerating the expiration of the subordination period.

For example, if we have not generated sufficient cash from our operations to pay the minimum quarterly distribution on our common and subordinated units, our partnership agreement permits us to borrow funds, which would enable us to make this distribution on all of our outstanding units. Please read "Provisions of Our Partnership Agreement Relating to Cash Distributions Subordination Period."

Our partnership agreement provides that we and our subsidiaries may borrow funds from our general partner and its affiliates. Our general partner and its affiliates may borrow funds from us, or our operating company and its operating subsidiaries.

***Our general partner determines which of the costs it incurs on our behalf are reimbursable by us.***

We will reimburse our general partner and its affiliates for the costs incurred in managing and operating us, including costs incurred in rendering corporate staff and support services to us. Our partnership agreement provides that our general partner will determine in good faith the expenses that are allocable to us.



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***Our partnership agreement does not restrict our general partner from causing us to pay it or its affiliates for any services rendered to us or from entering into additional contractual arrangements with any of these entities on our behalf.***

Our partnership agreement allows our general partner to determine, in good faith, any amounts to pay itself or its affiliates for any services rendered to us. Our general partner may also enter into additional contractual arrangements with any of its affiliates on our behalf. Neither our partnership agreement nor any of the other agreements, contracts or arrangements between us, on the one hand, and our general partner and its affiliates, on the other hand, that will be in effect as of the completion of this offering, will be the result of arm's-length negotiations. Similarly, agreements, contracts or arrangements between us and our general partner and its affiliates that are entered into following the closing of this offering may not be negotiated on an arm's-length basis, although, in some circumstances, our general partner may determine that the conflicts committee should make a determination on our behalf with respect to such arrangements.

Our general partner will determine, in good faith, the terms of any of these transactions entered into after the completion of this offering.

***Our general partner intends to limit its liability regarding our obligations.***

Our general partner intends to limit its liability under contractual arrangements so that counterparties to such agreements have recourse only against our assets, and not against our general partner or its assets. Our partnership agreement provides that any action taken by our general partner to limit its liability is not a breach of our general partner's fiduciary duties, even if we could have obtained more favorable terms without the limitation on liability.

***Our general partner may exercise its right to call and purchase all of the common units not owned by it and its affiliates if they own more than 80% of our common units.***

Our general partner may exercise its right to call and purchase common units, as provided in our partnership agreement, or may assign this right to one of its affiliates or to us. Our general partner is not bound by fiduciary duty restrictions in determining whether to exercise this right. As a result, a common unitholder may be required to sell his common units at an undesirable time or price. Please read "The Partnership Agreement - Limited Call Right."

***Our general partner controls the enforcement of its and its affiliates' obligations to us.***

Any agreements between us, on the one hand, and our general partner and its affiliates, on the other hand, will not grant to the unitholders, separate and apart from us, the right to enforce the obligations of our general partner and its affiliates in our favor.

***Our general partner decides whether to retain separate counsel, accountants or others to perform services for us.***

The attorneys, independent accountants and others who have performed services for us regarding this offering have been retained by our general partner. Attorneys, independent accountants and others who perform services for us are selected by our general partner or the conflicts committee and may perform services for our general partner and its affiliates. We may retain separate counsel for ourselves or the holders of common units in the event of a conflict of interest between our general partner and its affiliates, on the one hand, and us or the holders of common units, on the other hand, depending on the nature of the conflict. We do not intend to do so in most cases.

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***Our general partner may elect to cause us to issue common units to it in connection with a resetting of the target distribution levels related to our general partner's incentive distribution rights without the approval of the conflicts committee or our unitholders. This election may result in lower distributions to our common unitholders in certain situations.***

Our general partner has the right, at any time when there are no subordinated units outstanding and it has received incentive distributions at the highest level to which it is entitled (48.0%) for each of the prior four consecutive fiscal quarters, to reset the initial target distribution levels at higher levels based on our cash distributions at the time of the exercise of the reset election. Following a reset election by our general partner, the minimum quarterly distribution will be reset to an amount equal to the average cash distribution per common unit for the two fiscal quarters immediately preceding the reset election (such amount is referred to as the "reset minimum quarterly distribution"), and the target distribution levels will be reset to correspondingly higher levels based on percentage increases above the reset minimum quarterly distribution.

We anticipate that our general partner would exercise this reset right to facilitate acquisitions or internal growth projects that would not be sufficiently accretive to cash distributions per common unit without such conversion; it is possible, however, that our general partner could exercise this reset election at a time when we are experiencing declines in our aggregate cash distributions or at a time when our general partner expects that we will experience declines in our aggregate cash distributions in the foreseeable future. In such situations, our general partner may be experiencing, or may expect to experience, declines in the cash distributions it receives related to its incentive distribution rights and may therefore desire to be issued our common units, which are entitled to specified priorities with respect to our distributions and which therefore may be more advantageous for the general partner to own in lieu of the right to receive incentive distribution payments based on target distribution levels that are less certain to be achieved in the then current business environment. As a result, a reset election may cause our common unitholders to experience dilution in the amount of cash distributions that they would have otherwise received had we not issued new common units to our general partner in connection with resetting the target distribution levels related to our general partner's incentive distribution rights. Please read "Provisions of Our Partnership Agreement Relating to Cash Distributions General Partner Interest and Incentive Distribution Rights."

## **Fiduciary Duties**

Our general partner is accountable to us and our unitholders as a fiduciary. Fiduciary duties owed to unitholders by our general partner are prescribed by law and our partnership agreement. The Delaware LP Act provides that Delaware limited partnerships may, in their partnership agreements, expand, restrict or eliminate, except for the contractual covenant of good faith and fair dealing, the fiduciary duties otherwise owed by a general partner to limited partners and the partnership.

Our partnership agreement contains various provisions modifying and restricting the fiduciary duties that might otherwise be owed by our general partner. We have adopted these restrictions to allow our general partner or its affiliates to engage in transactions with us that would otherwise be prohibited by state-law fiduciary duty standards and to take into account the interests of other parties in addition to our interests when resolving conflicts of interest. Without such modifications, such transactions could result in violations of our general partner's state law fiduciary duty standards. We believe this is appropriate and necessary because our general partner's board of directors will have fiduciary duties to manage our general partner in a manner that is beneficial to its owners, as well as to our unitholders. Without these modifications, our general partner's ability to make decisions involving conflicts of interest would be restricted. The modifications to the fiduciary standards enable our general partner to take into consideration the interests of all parties involved in the proposed action, so long as the resolution is fair and reasonable to us. These modifications also enable our general partner to attract and retain experienced and capable directors. These modifications are detrimental to our unitholders because they restrict the rights and remedies that would otherwise be available to unitholders for actions that, without

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those limitations, might constitute breaches of fiduciary duty, as described below, and permit our general partner to take into account the interests of third parties in addition to our interests when resolving conflicts of interest. The following is a summary of the material restrictions of the fiduciary duties owed by our general partner to the limited partners:

State-law fiduciary duty standards	Fiduciary duties are generally considered to include an obligation to act in good faith and with due care and loyalty. The duty of care, in the absence of a provision in a partnership agreement providing otherwise, would generally require a general partner to act for the partnership in the same manner as a prudent person would act on his own behalf. The duty of loyalty, in the absence of a provision in a partnership agreement providing otherwise, would generally prohibit a general partner of a Delaware limited partnership from taking any action or engaging in any transaction where a conflict of interest is present.
Partnership agreement modified standards	<p>Our partnership agreement contains provisions that waive or consent to conduct by our general partner and its affiliates that might otherwise raise issues relating to compliance with fiduciary duties or applicable law. For example, our partnership agreement provides that when our general partner is acting in its capacity as our general partner, as opposed to in its individual capacity, it must act in "good faith" and will not be subject to any other standard under applicable law. In addition, when our general partner is acting in its individual capacity, as opposed to in its capacity as our general partner, it may act without any fiduciary obligation to us or the unitholders whatsoever. These standards reduce the obligations to which our general partner would otherwise be held.</p> <p>Our partnership agreement generally provides that affiliated transactions and resolutions of conflicts of interest that are not approved by a vote of common unitholders and that are not approved by the conflicts committee must be</p> <p style="padding-left: 40px;">on terms no less favorable to us than those generally being provided to, or available from, unrelated third parties; or</p> <p style="padding-left: 40px;">"fair and reasonable" to us, taking into account the totality of the relationships between the parties involved (including other transactions that may be particularly favorable or advantageous to us).</p>

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If our general partner does not seek approval from the conflicts committee and the board of directors determines that the resolution or course of action taken with respect to the conflict of interest satisfies either of the standards set forth in the bullet points above, then it will be presumed that, in making its decision, the board of directors, which may include board members affected by the conflict of interest, acted in good faith. In any proceeding brought by or on behalf of any limited partner or the partnership, the person bringing or prosecuting such proceeding will have the burden of overcoming such presumption. These standards reduce the obligations to which our general partner would otherwise be held.

In addition to the other more specific provisions limiting the obligations of our general partner, our partnership agreement further provides that our general partner and its officers and directors will not be liable for monetary damages to us or our limited partners for errors of judgment or for any acts or omissions unless there has been a final and non-appealable judgment by a court of competent jurisdiction determining that our general partner or its officers and directors acted in bad faith or engaged in fraud or willful misconduct or, in the case of a criminal matter, acted with knowledge that the conduct was unlawful.



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Rights and remedies of unitholders

The Delaware LP Act generally provides that a limited partner may institute legal action on behalf of the partnership to recover damages from a third party where a general partner has refused to institute the action or where an effort to cause a general partner to do so is not likely to succeed. These actions include actions against a general partner for breach of its fiduciary duties or of the partnership agreement. In addition, the statutory or case law of some jurisdictions may permit a limited partner to institute legal action on behalf of himself and all other similarly situated limited partners to recover damages from a general partner for violations of its fiduciary duties to the limited partners. The Delaware LP Act provides that, unless otherwise provided in a partnership agreement, a partner or other person shall not be liable to a limited partnership or to another partner or to another person that is a party to or is otherwise bound by a partnership agreement for breach of fiduciary duty for the partner's or other person's good faith reliance on the provisions of the partnership agreement. Under our partnership agreement, to the extent that, at law or in equity, an indemnitee has duties (including fiduciary duties) and liabilities relating thereto to us or to our partners, our general partner and any other indemnitee acting in connection with our business or affairs shall not be liable to us or to any partner for its good faith reliance on the provisions of our partnership agreement. To the fullest extent permitted by law, it shall be presumed that our general partner or any other indemnitee acted in a manner that satisfied the contractual standards set forth in our partnership agreement. In any proceeding brought by or on behalf of any limited partner, the person bringing or prosecuting such proceeding will have the burden of overcoming such presumption.

By purchasing our common units, each common unitholder automatically agrees to be bound by the provisions in our partnership agreement, including the provisions discussed above. This is in accordance with the policy of the Delaware LP Act favoring the principle of freedom of contract and the enforceability of partnership agreements. The failure of a limited partner to sign a partnership agreement does not render the partnership agreement unenforceable against that person.

Under our partnership agreement, we must indemnify our general partner and its officers, directors, managers and certain other specified persons, to the fullest extent permitted by law, against liabilities, costs and expenses incurred by our general partner or these other persons. We must provide this indemnification unless there has been a final and non-appealable judgment by a court of competent jurisdiction determining that these persons acted in bad faith or engaged in fraud or willful misconduct. We must also provide this indemnification for criminal proceedings unless our general partner or these other persons acted with knowledge that their conduct was unlawful. Thus, our general partner could be indemnified for its negligent acts if it meets the requirements set forth above. To the extent these provisions purport to include indemnification for liabilities arising under the Securities Act, in the opinion of the SEC, such indemnification is contrary to public policy and, therefore, unenforceable. Please read "The Partnership Agreement Indemnification."

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**DESCRIPTION OF THE COMMON UNITS**

**The Units**

The common units and the subordinated units represent limited partner interests in us. The common units and the subordinated units are separate classes of limited partner interests in us. The holders of common units and subordinated units are entitled to participate in partnership distributions and exercise the rights or privileges available to limited partners under our partnership agreement. For a description of the relative rights and preferences of holders of common units and subordinated units and our general partner in and to partnership distributions, please read this section and "Our Cash Distribution Policy and Restrictions on Distributions." For a description of the rights and privileges of limited partners under our partnership agreement, including voting rights, please read "The Partnership Agreement."

**Transfer Agent and Registrar**

**Duties.** Wells Fargo Bank, National Association will serve as the registrar and transfer agent for the common units. We will pay all fees charged by the transfer agent for transfers of common units except the following that must be paid by unitholders:

surety bond premiums to replace lost or stolen certificates, taxes and other governmental charges in connection therewith;

special charges for services requested by a common unitholder; and

other similar fees or charges.

There will be no charge to our unitholders for disbursements of our cash distributions. We will indemnify the transfer agent, its agents and each of their stockholders, directors, officers and employees against all claims and losses that may arise out of acts performed or omitted for its activities in that capacity, except for any liability due to any gross negligence or intentional misconduct of the indemnified person or entity.

**Resignation or Removal.** The transfer agent may resign, by notice to us, or be removed by us. The resignation or removal of the transfer agent will become effective upon our appointment of a successor transfer agent and registrar and its acceptance of the appointment. If no successor is appointed, our general partner may act as the transfer agent and registrar until a successor is appointed.

**Transfer of Common Units**

By transfer of common units in accordance with our partnership agreement, each transferee of common units shall be admitted as a limited partner with respect to the common units transferred when such transfer and admission are reflected in our books and records. Each transferee:

automatically becomes bound by the terms and conditions of, and is deemed to have executed, our partnership agreement;

represents that the transferee has the capacity, power and authority to become bound by our partnership agreement; and

gives the consents, waivers and approvals contained in our partnership agreement, such as the approval of all transactions and agreements that we are entering into in connection with our formation and this offering.

Our general partner will cause any transfers to be recorded on our books and records from time to time as necessary to accurately reflect the transfers.



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We may, at our discretion, treat the nominee holder of a common unit as the absolute owner. In that case, the beneficial holder's rights are limited solely to those that it has against the nominee holder as a result of any agreement between the beneficial owner and the nominee holder.

Common units are securities and any transfers are subject to the laws governing the transfer of securities. In addition to other rights acquired upon transfer, the transferor gives the transferee the right to become a substituted limited partner in our partnership for the transferred common units.

Until a common unit has been transferred on our books, we and the transfer agent may treat the record holder of the unit as the absolute owner for all purposes, except as otherwise required by law or stock exchange regulations.

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**THE PARTNERSHIP AGREEMENT**

The following is a summary of the material provisions of our partnership agreement. The form of our partnership agreement is included in this prospectus as Appendix A. We will provide prospective investors with a copy of our partnership agreement upon request at no charge.

We summarize the following provisions of our partnership agreement elsewhere in this prospectus:

with regard to distributions of available cash, please read "Provisions of Our Partnership Agreement Relating to Cash Distributions";

with regard to the fiduciary duties of our general partner, please read "Conflicts of Interest and Fiduciary Duties";

with regard to the transfer of common units, please read "Description of the Common Units    Transfer of Common Units"; and

with regard to allocations of taxable income and taxable loss, please read "Material Tax Consequences."

**Organization and Duration**

Our partnership was organized in September 2010 and will have a perpetual existence.

**Purpose**

Our purpose, as set forth in our partnership agreement, is limited to any business activity that is approved by our general partner and that lawfully may be conducted by a limited partnership organized under Delaware law; provided, that our general partner shall not cause us to engage, directly or indirectly, in any business activity that the general partner determines would be reasonably likely to cause us to be treated as an association taxable as a corporation or otherwise taxable as an entity for federal income tax purposes.

Although our general partner has the ability to cause us and our subsidiaries to engage in activities other than the business of retail propane sales, wholesale supply and marketing and propane terminaling, our general partner has no current plans to do so and may decline to do so free of any fiduciary duty or obligation whatsoever to us or the limited partners, including any duty to act in good faith or in the best interests of us or the limited partners. Our general partner is generally authorized to perform all acts it determines to be necessary or appropriate to carry out our purposes and to conduct our business.

**Cash Distributions**

Our partnership agreement specifies the manner in which we will make cash distributions to holders of our common units and other partnership securities as well as to our general partner in respect of its general partner interest and its incentive distribution rights. For a description of these cash distribution provisions, please read "Provisions of Our Partnership Agreement Relating to Cash Distributions."

**Capital Contributions**

Unitholders are not obligated to make additional capital contributions, except as described below under "    Limited Liability."

For a discussion of our general partner's right to contribute capital to maintain its 0.1% general partner interest if we issue additional units, please read "    Issuance of Additional Partnership Interests."



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**Voting Rights**

The following is a summary of the unitholder vote required for approval of the matters specified below. Matters that require the approval of a "unit majority" require:

during the subordination period, the approval of a majority of the common units, excluding those common units held by our general partner and its affiliates, and a majority of the subordinated units, voting as separate classes; and

after the subordination period, the approval of a majority of the common units, voting as a single class.

In voting their common and subordinated units, our general partner and its affiliates will have no fiduciary duty or obligation whatsoever to us or the limited partners, including any duty to act in good faith or in the best interests of us or the limited partners.

Issuance of additional units	No approval right.
Amendment of our partnership agreement	Certain amendments may be made by our general partner without the approval of the unitholders. Other amendments generally require the approval of a unit majority. Please read " Amendment of the Partnership Agreement."
Merger of our partnership or the sale of all or substantially all of our assets	Unit majority in certain circumstances. Please read " Merger, Consolidation, Conversion, Sale or Other Disposition of Assets."
Dissolution of our partnership	Unit majority. Please read " Dissolution."
Continuation of our business upon dissolution	Unit majority. Please read " Dissolution."
Withdrawal of our general partner	Prior to the first day of the first quarter beginning after the tenth anniversary of the closing date of this offering, the approval of a majority of the common units, excluding common units held by our general partner and its affiliates, is generally required for the withdrawal of our general partner. Please read " Withdrawal or Removal of Our General Partner."
Removal of our general partner	Not less than 66 <sup>2</sup> / <sub>3</sub> % of the outstanding units, voting as a single class, including units held by our general partner and its affiliates. Please read " Withdrawal or Removal of Our General Partner."
Transfer of our general partner interest	Our general partner may transfer all, but not less than all, of its general partner interest in us without a vote of our unitholders to an affiliate or another person in connection with its merger or consolidation with or into, or sale of all or substantially all of its assets to, such person. The approval of a majority of the common units, excluding common units held by our general partner and its affiliates, is required in other circumstances for a transfer of the general partner interest to a third party prior to the first day of the first quarter beginning after the tenth anniversary of the closing date of this offering. Please read " Transfer of General Partner Interest."

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Transfer of incentive distribution rights	No approval rights after the first day of the first quarter beginning after the tenth anniversary of the closing date of this offering and limited approval rights prior to that time. Please read "Transfer of Incentive Distribution Rights."
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Transfer of ownership interests in our general partner	No approval required at any time. Please read "Transfer of Ownership Interests in the General Partner."
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If any person or group other than our general partner and its affiliates acquires beneficial ownership of 20% or more of any class of units, that person or group loses voting rights on all of its units. This loss of voting rights does not apply to (i) any person or group that acquires the units from our general partner or its affiliates; (ii) any person or group that acquires the units directly or indirectly from our general partner or its affiliates, provided that our general partner notifies such transferees that the limitation does not apply; or (iii) any person or group that acquires the units from us provided that our general partner notifies such transferees that the limitation does not apply.

### **Applicable Law; Forum, Venue and Jurisdiction**

Our partnership agreement is governed by Delaware law. Our partnership agreement requires that any claims, suits, actions or proceedings:

arising out of or relating in any way to the partnership agreement (including any claims, suits or actions to interpret, apply or enforce the provisions of the partnership agreement or the duties, obligations or liabilities among limited partners or of limited partners, or the rights or powers of, or restrictions on, the limited partners or us);

brought in a derivative manner on our behalf;

asserting a claim of breach of a fiduciary duty owed by any director, officer, or other employee of us or our general partner, or owed by our general partner, to us or the limited partners;

asserting a claim arising pursuant to any provision of the Delaware LP Act; and

asserting a claim governed by the internal affairs doctrine shall be exclusively brought in the Court of Chancery of the State of Delaware, in each case regardless of whether such claims, suits, actions or proceedings sound in contract, tort, fraud or otherwise, are based on common law, statutory, equitable, legal or other grounds, or are derivative or direct claims.

By purchasing a common unit, a limited partner is irrevocably consenting to these limitations and provisions regarding claims, suits, actions or proceedings and submitting to the exclusive jurisdiction of the Court of Chancery of the State of Delaware in connection with any such claims, suits, actions or proceedings.

### **Limited Liability**

Assuming that a limited partner does not participate in the control of our business within the meaning of the Delaware LP Act and that he otherwise acts in conformity with the provisions of the partnership agreement, his liability under the Delaware LP Act will be limited, subject to possible exceptions, to the amount of capital he is obligated to contribute to us for his common units plus his share of any undistributed profits and assets. However, if it were determined that the right, or exercise of the right, by the limited partners as a group:

to remove or replace our general partner;

to approve some amendments to our partnership agreement; or



to take other action under our partnership agreement;

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constituted "participation in the control" of our business for the purposes of the Delaware LP Act, then the limited partners could be held personally liable for our obligations under the laws of Delaware, to the same extent as our general partner. This liability would extend to persons who transact business with us under the reasonable belief that the limited partner is a general partner. Neither our partnership agreement nor the Delaware LP Act specifically provides for legal recourse against our general partner if a limited partner were to lose limited liability through any fault of our general partner. While this does not mean that a limited partner could not seek legal recourse, we know of no precedent for this type of a claim in Delaware case law.

Under the Delaware LP Act, a limited partnership may not make a distribution to a partner if, after the distribution, all liabilities of the limited partnership, other than liabilities to partners on account of their partnership interests and liabilities for which the recourse of creditors is limited to specific property of the partnership, would exceed the fair value of the assets of the limited partnership. Neither liabilities to partners on account of their partnership interests nor liabilities that are non-recourse to the partnership are counted for purposes of determining whether a distribution is permitted. For the purpose of determining the fair value of the assets of a limited partnership, the Delaware LP Act provides that the fair value of property subject to liability for which recourse of creditors is limited shall be included in the assets of the limited partnership only to the extent that the fair value of that property exceeds the nonrecourse liability. The Delaware LP Act provides that a limited partner who receives a distribution and knew at the time of the distribution that the distribution was in violation of the Delaware LP Act shall be liable to the limited partnership for the amount of the distribution for three years. Under the Delaware LP Act, a substituted limited partner of a limited partnership is liable for the obligations of his assignor to make contributions to the partnership, except that such person is not obligated for liabilities unknown to him at the time he became a limited partner and that could not be ascertained from the partnership agreement.

Our subsidiaries conduct business in 30 states and we may have subsidiaries that conduct business in other states in the future. Maintenance of our limited liability as a member of the operating company may require compliance with legal requirements in the jurisdictions in which the operating company conducts business, including qualifying our subsidiaries to do business there.

Limitations on the liability of members or limited partners for the obligations of a limited liability company or limited partnership have not been clearly established in many jurisdictions. If, by virtue of our ownership interest in our operating company or otherwise, it were determined that we were conducting business in any state without compliance with the applicable limited partnership or limited liability company statute, or that the right or exercise of the right by the limited partners as a group to remove or replace our general partner, to approve some amendments to our partnership agreement, or to take other action under our partnership agreement constituted "participation in the control" of our business for purposes of the statutes of any relevant jurisdiction, then the limited partners could be held personally liable for our obligations under the law of that jurisdiction to the same extent as our general partner under the circumstances. We will operate in a manner that our general partner considers reasonable and necessary or appropriate to preserve the limited liability of the limited partners.

#### **Issuance of Additional Partnership Interests**

Our partnership agreement authorizes us to issue an unlimited number of additional partnership interests and options, rights, warrants and appreciation rights relating to partnership interests for the consideration and on the terms and conditions determined by our general partner without the approval of the unitholders.

It is possible that we will fund acquisitions through the issuance of additional common units, subordinated units or other partnership interests. Holders of any additional common units we issue will be entitled to share equally with the then-existing holders of common units in our distributions of

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available cash. In addition, the issuance of additional common units or other partnership interests may dilute the value of the interests of the then-existing holders of common units in our net assets.

In accordance with Delaware law and the provisions of our partnership agreement, we may also issue additional partnership interests that, as determined by our general partner, may have special voting rights to which the common units are not entitled or may have other preferences, rights, powers and duties, which may be senior to existing classes and series of partnership interests. In addition, our partnership agreement does not prohibit our subsidiaries from issuing equity securities, which may effectively rank senior to the common units.

Upon issuance of additional partnership interests (other than the issuance of common units upon the subdivision of common units held by the members of the NGL Energy LP Investor Group, the issuance of subordinated units upon conversion of outstanding common units held by the members of the NGL Energy LP Investor Group on a pro rata basis into subordinated units or the issuance of common units upon a reset of the incentive distribution rights) our general partner will be entitled, but not required, to make additional capital contributions to the extent necessary to maintain its 0.1% general partner interest in us. Our general partner's 0.1% general partner interest in us will be reduced if we issue additional units in the future (other than in those circumstances described above) and our general partner does not contribute a proportionate amount of capital to us to maintain its 0.1% general partner interest. Moreover, our general partner will have the right, which it may from time to time assign in whole or in part to any of its affiliates or the beneficial owners thereof or any of their respective affiliates, to purchase common units, subordinated units or other partnership interests whenever, and on the same terms that, we issue those interests to persons other than our general partner and its affiliates and such beneficial owners, to the extent necessary to maintain the percentage interest of our general partner and its affiliates and such beneficial owners or any of their respective affiliates, including such interest represented by common and subordinated units, that existed immediately prior to each issuance. The holders of common units will not have preemptive rights under our partnership agreement to acquire additional common units or other partnership interests.

**Amendment of the Partnership Agreement**

**General.** Amendments to our partnership agreement may be proposed only by or with the consent of our general partner. However, to the full extent permitted by law, our general partner will have no duty or obligation to propose any amendment and may decline to do so free of any fiduciary duty or obligation whatsoever to us or the limited partners, including any duty to act in good faith or in the best interests of us or the limited partners. To adopt a proposed amendment, other than the amendments discussed below, our general partner is required to seek written approval of the holders of the number of units required to approve the amendment or to call a meeting of the limited partners to consider and vote upon the proposed amendment. Except as described below, an amendment must be approved by a unit majority.

**Prohibited Amendments.** No amendment may be made that would:

enlarge the obligations of any limited partner without its consent, unless approved by at least a majority of the type or class of limited partner interests so affected; or

enlarge the obligations of, restrict, change or modify in any way any action by or rights of, or reduce in any way the amounts distributable, reimbursable or otherwise payable by us to our general partner or any of its affiliates without the consent of our general partner, which consent may be given or withheld at its option.

The provision of our partnership agreement preventing the amendments having the effects described in the clauses above can be amended upon the approval of the holders of at least 90.0% of the outstanding units, voting as a single class (including units owned by our general partner and its affiliates). Upon completion of the offering, affiliates of our general partner will own approximately 75.8%

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of our outstanding common and subordinated units as a single class (or 72.8% of the outstanding common and subordinated units as a single class, if the underwriters exercise their option to purchase additional common units from us in full).

**No Unitholder Approval.** Our general partner may generally make amendments to our partnership agreement without the approval of any limited partner to reflect:

a change in our name, the location of our principal place of business, our registered agent or our registered office;

the admission, substitution, withdrawal or removal of partners in accordance with our partnership agreement;

a change that our general partner determines to be necessary or appropriate to qualify or continue our qualification as a limited partnership or a partnership in which the limited partners have limited liability under the laws of any state or to ensure that neither we nor any of our subsidiaries will be treated as an association taxable as a corporation or otherwise taxed as an entity for federal income tax purposes (to the extent not already so treated);

an amendment that is necessary, in the opinion of our counsel, to prevent us or our general partner or its directors, officers, agents or trustees from in any manner being subjected to the provisions of the Investment Company Act of 1940, as amended, the Investment Advisers Act of 1940, as amended, or "plan asset" regulations adopted under the Employee Retirement Income Security Act of 1974, as amended, or ERISA, whether or not substantially similar to plan asset regulations currently applied or proposed;

an amendment that our general partner determines to be necessary or appropriate in connection with the creation, authorization or issuance of additional partnership interests and options, rights, warrants and appreciation rights relating to the partnership interests;

any amendment expressly permitted in our partnership agreement to be made by our general partner acting alone;

an amendment effected, necessitated or contemplated by a merger agreement that has been approved under the terms of our partnership agreement;

any amendment that our general partner determines to be necessary or appropriate for the formation by us of, or our investment in, any corporation, partnership, joint venture, limited liability company or other entity, as otherwise permitted by our partnership agreement;

a change in our fiscal year or taxable year and related changes;

conversions into, mergers with or conveyances to another limited liability entity that is newly formed and has no assets, liabilities or operations at the time of the conversion, merger or conveyance other than those it receives by way of the conversion, merger or conveyance; or

any other amendments substantially similar to any of the matters described in the clauses above or the following paragraph.

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Our general partner may also make amendments to our partnership agreement, without the approval of any limited partner, if our general partner determines that those amendments:

do not adversely affect in any material respect the limited partners (or any particular class of limited partners);

are necessary or appropriate to satisfy any requirements, conditions or guidelines contained in any opinion, directive, order, ruling or regulation of any federal or state agency or judicial authority or contained in any federal or state statute (including the Delaware LP Act);

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are necessary or appropriate to facilitate the trading of units or to comply with any rule, regulation, guideline or requirement of any securities exchange on which the units are or will be listed for trading;

are necessary or appropriate for any action taken by our general partner relating to splits or combinations of partnership interests under the provisions of our partnership agreement; or

are required to effect the intent expressed in this prospectus or the intent of the provisions of our partnership agreement or the contribution purchase and sale agreement in connection with the formation transactions or are otherwise contemplated by our partnership agreement or such contribution purchase and sale agreement.

***Opinion of Counsel and Unitholder Approval.*** Our general partner will not be required to obtain an opinion of counsel that an amendment will not result in a loss of limited liability to the limited partners or result in our being treated as an entity for federal income tax purposes in connection with any of the amendments described above under " No Unitholder Approval." No other amendments to our partnership agreement will become effective without the approval of holders of at least 90.0% of the outstanding units voting as a single class unless we first obtain an opinion of counsel to the effect that the amendment will not affect the limited liability under applicable law of any of our limited partners.

In addition to the above restrictions, any amendment that would have a material adverse effect on the rights or preferences of any type or class of outstanding units in relation to other classes of units will require the approval of at least a majority of the type or class of units so affected. Any amendment that reduces the voting percentage required to take any action and any amendment which increases the voting percentage for the removal of our general partner or the calling of a special meeting must be approved by the affirmative vote of limited partners whose aggregate outstanding units constitute not less than the voting requirement sought to be reduced or increased, as applicable.

**Merger, Consolidation, Conversion, Sale or Other Disposition of Assets**

A merger, consolidation or conversion of us requires the prior consent of our general partner. However, to the fullest extent permitted by law, our general partner will have no duty or obligation to consent to any merger, consolidation or conversion and may decline to do so free of any fiduciary duty or obligation whatsoever to us or the limited partners, including any duty to act in good faith or in the best interest of us or the limited partners.

In addition, our partnership agreement generally prohibits our general partner, without the prior approval of the holders of a unit majority, from causing us to sell, exchange or otherwise dispose of all or substantially all of our assets in a single transaction or a series of related transactions. Our general partner may, however, in our best interests, mortgage, pledge, hypothecate or grant a security interest in all or substantially all of our assets without such approval. Our general partner may also sell all or substantially all of our assets under a foreclosure or other realization upon those encumbrances without such approval. Finally, our general partner may consummate any merger without the prior approval of our unitholders if we are the surviving entity in the transaction, our general partner has received an opinion of counsel regarding limited liability and tax matters, the transaction would not result in an amendment to the partnership agreement (other than an amendment that the general partner could adopt without the consent of the limited partners), each of our units outstanding immediately prior to the transaction will be a substantially identical unit of our partnership following the transaction and the partnership interests to be issued do not exceed 20% of our outstanding partnership interests (other than the incentive distribution rights) immediately prior to the transaction.

If the conditions specified in our partnership agreement are satisfied, our general partner may convert us or any of our subsidiaries into a new limited liability entity or merge us or any of our subsidiaries into, or convey all of our assets to, a newly formed entity, if the sole purpose of that

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conversion, merger or conveyance is to effect a mere change in our legal form into another limited liability entity, our general partner has received an opinion of counsel regarding limited liability and tax matters and the governing instruments of the new entity provide the limited partners and our general partner with the same rights and obligations as contained in our partnership agreement. Our unitholders are not entitled to dissenters' rights of appraisal under our partnership agreement or applicable Delaware law in the event of a conversion, merger or consolidation, a sale of substantially all of our assets or any other similar transaction or event.

**Dissolution**

We will continue as a limited partnership until dissolved under our partnership agreement. We will dissolve upon:

the election of our general partner to dissolve us, if approved by the holders of units representing a unit majority;

there being no limited partners, unless we are continued without dissolution in accordance with applicable Delaware law;

the entry of a decree of judicial dissolution of our partnership; or

the withdrawal or removal of our general partner or any other event specified in our partnership agreement that results in its ceasing to be our general partner other than by reason of a transfer of its general partner interest in accordance with our partnership agreement or its withdrawal or removal following the approval and admission of a successor.

Upon a dissolution under the last clause above, the holders of a unit majority may also elect, within specific time limitations, to continue our business on the same terms and conditions described in our partnership agreement by appointing as a successor general partner an entity approved by the holders of units representing a unit majority, subject to our receipt of an opinion of counsel to the effect that:

the action would not result in the loss of limited liability under Delaware law of any limited partner; and

neither our partnership nor any of our subsidiaries would be treated as an association taxable as a corporation or otherwise be taxable as an entity for federal income tax purposes upon the exercise of that right to continue (to the extent not already so treated or taxed).

**Liquidation and Distribution of Proceeds**

Upon our dissolution, unless our business is continued, the liquidator authorized to wind up our affairs will, acting with all of the powers of our general partner that are necessary or appropriate, liquidate our assets and apply the proceeds of the liquidation as described in "Provisions of Our Partnership Agreement Relating to Cash Distributions Distributions of Cash Upon Liquidation." The liquidator may defer liquidation or distribution of our assets for a reasonable period of time or distribute assets to partners in kind if it determines that a sale would be impractical or would cause undue loss to our partners.

**Withdrawal or Removal of Our General Partner**

Except as described below, our general partner has agreed not to withdraw voluntarily as our general partner prior to 11:59 p.m. Central Time on the first day of the first quarter beginning after the tenth anniversary of the closing date of this offering without obtaining the approval of the holders of at least a majority of the outstanding common units, excluding common units held by our general partner and its affiliates, and furnishing an opinion of counsel regarding limited liability and tax matters. On or after 11:59 p.m. Central Time on the first day of the first quarter beginning after the tenth anniversary of





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the closing date of this offering, our general partner may withdraw as general partner without first obtaining approval of any unitholder by giving 90 days' written notice, and that withdrawal will not constitute a violation of our partnership agreement. Notwithstanding the information above, our general partner may withdraw without unitholder approval upon 90 days' notice to the limited partners if at least 50% of the outstanding common units are held or controlled by one person and its affiliates, other than our general partner and its affiliates. In addition, our partnership agreement permits our general partner, in some instances, to sell or otherwise transfer all of its general partner interest in us without the approval of the unitholders. Please read " Transfer of General Partner Interest" and " Transfer of Incentive Distribution Rights."

Upon withdrawal of our general partner under any circumstances, other than as a result of a transfer by our general partner of all or a part of its general partner interest in us, the holders of a unit majority may select a successor to that withdrawing general partner to continue the business of the partnership. If a successor is not elected, or is elected but an opinion of counsel regarding limited liability and tax matters cannot be obtained, we will be dissolved, wound up and liquidated, unless within a specified period after that withdrawal, the holders of a unit majority agree in writing to continue our business and to appoint a successor general partner. Please read " Dissolution."

Our general partner may not be removed unless that removal is approved by the vote of the holders of not less than  $66\frac{2}{3}\%$  of the outstanding units, voting together as a single class, including units held by our general partner and its affiliates, and we receive an opinion of counsel regarding limited liability and tax matters. Any removal of our general partner is also subject to the approval of a successor general partner by the vote of the holders of a majority of the outstanding common units, voting as a class, and the outstanding subordinated units, voting as a class (including, in each case, units held by our general partner and its affiliates). The ownership of more than  $33\frac{1}{3}\%$  of the outstanding units by our general partner and its affiliates gives them the practical ability to prevent our general partner's removal. Upon the completion of this offering, affiliates of our general partner will own 75.8% of the outstanding units (or 72.8% of the outstanding units, if the underwriters exercise their option to purchase additional common units from us in full).

Our partnership agreement also provides that if our general partner is removed as our general partner under circumstances where cause does not exist:

the subordinated units held by any person will immediately and automatically convert into common units on a one-for-one basis unless such person or any of their affiliates voted in favor of such removal or such person is an affiliate of the successor general partner; and

if all the subordinated units convert into common units pursuant to the preceding bullet point, all cumulative common unit arrearages on the common units will be extinguished and the subordination period will end.

In the event of the removal of our general partner under circumstances where cause exists or withdrawal of our general partner where that withdrawal violates our partnership agreement, a successor general partner will have the option to purchase the general partner interest and incentive distribution rights of the departing general partner for a cash payment equal to the fair market value of those interests. Under all other circumstances where our general partner withdraws or is removed by the limited partners, the departing general partner will have the option to require the successor general partner to purchase the general partner interest and the incentive distribution rights of the departing general partner or its affiliates for fair market value. In each case, this fair market value will be determined by agreement between the departing general partner and the successor general partner. If no agreement is reached, an independent investment banking firm or other independent expert selected by the departing general partner and the successor general partner will determine the fair market value. Or, if the departing general partner and the successor general partner cannot agree upon an expert, then an expert chosen by agreement of the experts selected by each of the departing general partner and the successor general partner will determine the fair market value.

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If the option to purchase described above is not exercised by either the departing general partner or the successor general partner, the departing general partner's general partner interest and all of its or its affiliates' incentive distribution rights will automatically convert into common units equal to the fair market value of those interests as determined by an investment banking firm or other independent expert selected in the manner described in the preceding paragraph.

In addition, we will be required to reimburse the departing general partner for all amounts due the departing general partner, including, without limitation, all employee-related liabilities, including severance liabilities incurred as a result of the termination of any employees employed for our benefit by the departing general partner or its affiliates.

**Transfer of General Partner Interest**

Prior to the first day of the first quarter beginning after the tenth anniversary of the closing date of this offering, except for transfer by our general partner of all, but not less than all, of its general partner interest to (i) an affiliate of our general partner (other than an individual) or (ii) another entity as part of the merger or consolidation of our general partner with or into another entity or the transfer by our general partner of all or substantially all of its assets to another entity, our general partner may not transfer all or any of its general partner interest to another person without the approval of the holders of at least a majority of the outstanding common units, excluding common units held by our general partner and its affiliates. On or after the first day of the first quarter beginning after the tenth anniversary of the closing date of this offering, our general partner may transfer all or any part of its general partner interest in us to another person without the approval of the unitholders. As a condition of this transfer, the transferee must, among other things, assume the rights and duties of our general partner, agree to be bound by the provisions of our partnership agreement and furnish an opinion of counsel regarding limited liability and tax matters.

Our general partner may, at any time, transfer common units or subordinated units to one or more persons, without unitholder approval.

**Transfer of Ownership Interests in the General Partner**

At any time, the owners of our general partner may sell or transfer all or part their ownership interests in our general partner to an affiliate or a third party without unitholder approval.

**Transfer of Incentive Distribution Rights**

Prior to the first day of the first quarter beginning after the tenth anniversary of the closing date of this offering, the consent of a majority of our outstanding common units (excluding common units held by our general partner and its affiliates) will be required to transfer the incentive distribution rights, except for transfers to an affiliate or to another person as part of our general partner's merger or consolidation, sale of all or substantially all of its assets, the sale of all of the ownership interests in our general partner, the pledge, encumbrance, hypothecation or mortgage of the incentive distribution rights in favor of a person providing bona-fide debt financing to such holder as security or collateral for such debt financing and the transfer of incentive distribution rights in connection with exercise of any remedy of such person in connection therewith. After the expiration of this period, the incentive distribution rights may be freely transferred.

**Change of Management Provisions**

Our partnership agreement contains specific provisions that are intended to discourage a person or group from attempting to remove NGL Energy Holdings LLC as our general partner or from otherwise changing our management. Please read "Withdrawal or Removal of Our General Partner" for a discussion of certain consequences of the removal of our general partner. If any person or group, other than our general partner and its affiliates, acquires beneficial ownership of 20% or more of any class of

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units, that person or group loses voting rights on all of its units. This loss of voting rights does not apply in certain circumstances. Please read " Meetings; Voting."

**Limited Call Right**

If at any time our general partner and its affiliates own more than 80% of the then-issued and outstanding limited partner interests of any class, our general partner will have the right, which it may assign in whole or in part to any of its affiliates or beneficial owners thereof or to us, to acquire for cash all, but not less than all, of the limited partner interests of the class held by unaffiliated persons as of a record date to be selected by our general partner, on at least 10, but not more than 60, days notice. The purchase price in the event of this purchase is the greater of:

the highest price paid by our general partner or any of its affiliates for any limited partner interests of the class purchased within the 90 days preceding the date on which our general partner first mails notice of its election to purchase those limited partner interests; and

the average of the daily closing prices of the partnership securities of such class over the 20 consecutive trading days preceding the date three days before the date the notice is mailed.

As a result of our general partner's right to purchase outstanding limited partner interests, a holder of limited partner interests may have his limited partner interests purchased at an undesirable time or a price that may be lower than market prices at various times prior to such purchase or lower than a unitholder may anticipate the market price to be in the future. The tax consequences to a unitholder of the exercise of this call right are the same as a sale by that unitholder of his common units in the market. Please read "Material Tax Consequences Disposition of Common Units."

**Non-Citizen Assignees; Redemption**

If our general partner, with the advice of counsel, determines we are subject to U.S. federal, state or local laws or regulations that, in the reasonable determination of our general partner, create a substantial risk of cancellation or forfeiture of any property that we have an interest in because of the nationality, citizenship or other related status of any limited partner, then our general partner may adopt such amendments to our partnership agreement as it determines necessary or advisable to:

obtain proof of the nationality, citizenship or other related status of the limited partner or transferees (and their owners, to the extent relevant); and

permit us to redeem the units held by any person whose nationality, citizenship or other related status creates substantial risk of cancellation or forfeiture of any property or who fails to comply with the procedures instituted by our general partner to obtain proof of the nationality, citizenship or other related status. The redemption price in the case of such a redemption will be the average of the daily closing prices per unit for the 20 consecutive trading days immediately prior to the date set for redemption.

**Non-Taxpaying Assignees; Redemption**

If our general partner, with the advice of counsel, determines that our not being treated as an association taxable as a corporation or otherwise taxable as an entity for U.S. federal income tax purposes, coupled with the tax status (or lack of proof thereof) of one or more of our limited partners, has, or is reasonably likely to have, a material adverse effect on the maximum applicable rates chargeable to customers by us, then our general partner may adopt such amendments to our partnership agreement as it determines necessary or advisable to:

obtain proof of the U.S. federal income tax status of the limited partner or transferees (and their owners, to the extent relevant); and

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permit us to redeem the units held by any person whose tax status has or is reasonably likely to have a material adverse effect on the maximum applicable rates or who fails to comply with the procedures instituted by our general partner to obtain proof of the U.S. federal income tax status. The redemption price in the case of such a redemption will be the average of the daily closing prices per unit for the 20 consecutive trading days immediately prior to the date set for redemption.

**Meetings; Voting**

Except as described below regarding certain persons or groups owning 20% or more of any class of units then outstanding, record holders of units on the record date will be entitled to notice of, and to vote at, meetings of our limited partners and to act upon matters for which approvals may be solicited.

Our general partner does not anticipate that any meeting of our unitholders will be called in the foreseeable future. Any action that is required or permitted to be taken by the unitholders may be taken either at a meeting of the unitholders or without a meeting, if consents in writing describing the action so taken are signed by holders of the number of units necessary to authorize or take that action at a meeting. Meetings of the unitholders may be called by our general partner or by unitholders owning at least 20% of the outstanding units of the class for which a meeting is proposed. Unitholders may vote either in person or by proxy at meetings. The holders of a majority of the outstanding units of the class or classes for which a meeting has been called, represented in person or by proxy, will constitute a quorum, unless any action by the unitholders requires approval by holders of a greater percentage of the units, in which case the quorum will be the greater percentage.

Each record holder of a unit has a vote according to his percentage interest in us, although additional limited partner interests having special voting rights could be issued. Please read " Issuance of Additional Partnership Interests." However, if at any time any person or group, other than our general partner and its affiliates, or a direct or subsequently approved (at the time of transfer as evidenced by notification) transferee of our general partner or its affiliates and purchasers specifically approved, as evidenced by notification, by our general partner in its sole discretion, acquires, in the aggregate, beneficial ownership of 20% or more of any class of units then outstanding, that person or group will lose voting rights on all of its units and the units may not be voted on any matter and will not be considered to be outstanding when sending notices of a meeting of unitholders, calculating required votes, determining the presence of a quorum or for other similar purposes. Common units held in nominee or street name account will be voted by the broker or other nominee in accordance with the instruction of the beneficial owner unless the arrangement between the beneficial owner and his nominee provides otherwise. Except as our partnership agreement otherwise provides, subordinated units will generally vote together with common units, as a single class.

Any notice, demand, request, report or proxy material required or permitted to be given or made to record holders of common units under our partnership agreement will be delivered to the record holder by us or by the transfer agent.

**Status as Limited Partner**

By transfer of common units in accordance with our partnership agreement, each transferee of common units shall be admitted as a limited partner with respect to the common units transferred when such transfer and admission are reflected in our books and records. Except as described under " Limited Liability," the common units will be fully paid, and unitholders will not be required to make additional contributions.

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**Indemnification**

Under our partnership agreement, in most circumstances, we will indemnify the following persons, to the fullest extent permitted by law, from and against all losses, claims, damages or similar events:

our general partner;

any departing general partner;

any person who is or was an affiliate of our general partner or any departing general partner;

any person who is or was an officer, director, manager, managing member, fiduciary or trustee of our partnership, our subsidiaries, or any entity described in the three bullet points above or any of their affiliates;

any person who is or was serving, at the request of our general partner or any departing general partner or any of their respective affiliates, as a director, officer, manager, managing member, fiduciary or trustee of another person owing a fiduciary duty to us or our subsidiaries;

any person who controls our general partner or any departing general partner; and

any person designated by our general partner.

However, our partnership agreement provides that these persons will not be indemnified if there has been a final and non-appealable judgment entered by a court of competent jurisdiction determining that, with respect to the matter for which the person is seeking indemnification, the person acted in bad faith or engaged in fraud, willful misconduct or, in the case of a criminal matter, acted with knowledge that the person's conduct was unlawful.

Any indemnification under these provisions will only be out of our assets. Our general partner will not be personally liable for, or have any obligation to contribute or lend funds or assets to us to enable us to effectuate, indemnification. We may purchase insurance against liabilities asserted against and expenses incurred by persons for our activities, regardless of whether we would have the power to indemnify the person against liabilities under our partnership agreement.

**Reimbursement of Expenses**

Our partnership agreement requires us to reimburse our general partner and its affiliates for all expenses they incur or payments they make on our behalf. These expenses include salary, bonus, incentive compensation and other amounts paid to persons who perform services for us or on our behalf and expenses allocated to our general partner by its affiliates. Our general partner is entitled to determine the expenses that are allocable to us and our subsidiaries.

**Books and Reports**

Our general partner is required to keep appropriate books of our business at our principal offices. These books will be maintained for both tax and financial reporting purposes on an accrual basis. For tax purposes, our fiscal year is the calendar year. For fiscal reporting purposes, our fiscal year ends March 31st of each year.

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We will furnish or make available to record holders of our common units, within 90 days after the close of each fiscal year, an annual report containing audited consolidated financial statements and a report on those consolidated financial statements by our independent public accountants. Except for our fourth quarter, we will also furnish or make available summary financial information within 45 days after the close of each quarter. We will be deemed to have made any such report available if we file such report with the SEC on EDGAR or make the report available on a publicly available website which we maintain.

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We will furnish each record holder with information reasonably required for federal and state tax reporting purposes within 90 days after the close of each calendar year. This information is expected to be furnished in summary form so that some complex calculations normally required of partners can be avoided. Our ability to furnish this summary information to our unitholders will depend on their cooperation in supplying us with specific information. Every unitholder will receive information to assist him in determining his federal and state tax liability and in filing his federal and state income tax returns, regardless of whether he supplies us with the necessary information.

**Right to Inspect Our Books and Records**

Our partnership agreement provides that a limited partner can, for a purpose reasonably related to his interest as a limited partner, the reasonableness of which having been determined by our general partner, upon reasonable written demand stating the purpose of such demand and at his own expense, have furnished to him:

a current list of the name and last known address of each partner;

a copy of our tax returns;

information as to the amount of cash, and a description and statement of the agreed value of any other property or services, contributed or to be contributed by each partner and the date on which each partner became a partner;

copies of our partnership agreement, our certificate of limited partnership and all amendments thereto;

information regarding the status of our business and our financial condition; and

any other information regarding our affairs as is just and reasonable.

To the full extent permitted by law, our general partner may, and intends to, keep confidential from the limited partners trade secrets or other information the disclosure of which our general partner believes is not in our best interests or could damage us or our business or that we are required by law or by agreements with third parties to keep confidential.



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**UNITS ELIGIBLE FOR FUTURE SALE**

After the sale of the common units offered hereby, our general partner and its affiliates will hold an aggregate of 5,014,222 common units and 5,919,346 subordinated units. All of the subordinated units will convert into common units at the end of the subordination period and some may convert earlier. The sale of these units could have an adverse impact on the price of our common units or on any trading market that may develop.

The common units sold in this offering will generally be freely transferable without restriction or further registration under the Securities Act, except that any common units owned by an "affiliate" of ours may not be resold publicly except in compliance with the registration requirements of the Securities Act or under an exemption under Rule 144 or otherwise. Rule 144 permits securities acquired by an affiliate of the issuer to be sold into the market in an amount that does not exceed, during any three-month period, the greater of:

1.0% of the total number of the securities outstanding, or

the average weekly reported trading volume of the common units for the four weeks prior to the sale.

Sales under Rule 144 are also subject to specific manner of sale provisions, holding period requirements, notice requirements and the availability of current public information about us. A person who is not deemed to have been an affiliate of ours at any time during the three months preceding a sale, and who has beneficially owned his common units for at least six months (provided we are in compliance with the current public information requirement) or one year (regardless of whether we are in compliance with the current public information requirement), would be entitled to sell those common units under Rule 144. After beneficially owning restricted units for at least one year, a person who is not deemed to have been an affiliate of ours at any time during the 90 days preceding a sale would be entitled to freely sell those common units without regard to the public information requirements, volume limitations, manner of sale provisions and notice requirements of Rule 144.

The partnership agreement does not restrict our ability to issue any partnership securities. Any issuance of additional common units or other equity securities would result in a corresponding decrease in the proportionate ownership interest in us represented by, and could adversely affect the cash distributions to and market price of, our common units then outstanding. Please read "The Partnership Agreement Issuance of Additional Partnership Interests."

Prior to the closing of this offering but effective at the time of such closing, we will enter into a registration rights agreement pursuant to which we will agree to register for resale under the Securities Act common units, including any common units issued upon the conversion of subordinated units, owned by members of the NGL Energy LP Investor Group or their permitted assignees. We will not be required to register such common units if an exemption from the registration requirements of the Securities Act is available with respect to the number of common units desired to be sold.

Pursuant to the registration rights agreement, at any time following the date that is 180 days after the closing of this offering, NGL Holdings, Inc., HOH or the IEP Parties, to the extent that they continue to own more than 5% of our common units, may require us to file a registration statement with the SEC registering the offer and sale of a specified number of common units, subject to limitations on the number of requests for registration that can be made in any twelve month period as well as customary cutbacks at the discretion of the underwriter. In addition, the registration rights agreement provides that members of the NGL Energy LP Investor Group may have their common units included in any registration statement filed by us for an offering of common units for cash, subject to customary cutbacks at the discretion of the underwriter. We are obligated to pay all expenses incidental to any registration of common units, excluding underwriting discounts and commissions. Except as described below, our general partner and its affiliates may sell their units in private transactions at any time, subject to compliance with applicable laws.

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Our partnership, our general partner and its affiliates, including the executive officers and directors of our general partner, have agreed not to sell any common units they beneficially own for a period of 180 days from the date of this prospectus, subject to certain exceptions. For a description of these lock-up provisions, please read "Underwriting."

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**MATERIAL TAX CONSEQUENCES**

This section is a summary of the material tax considerations that may be relevant to prospective unitholders who are individual citizens or residents of the U.S. and, unless otherwise noted in the following discussion, is the opinion of Akin Gump Strauss Hauer & Feld LLP, counsel to our general partner and us, insofar as it relates to legal conclusions with respect to matters of U.S. federal income tax law. This section is based upon current provisions of the Internal Revenue Code of 1986, as amended, or the Internal Revenue Code, existing and proposed Treasury regulations promulgated under the Internal Revenue Code, or the Treasury Regulations, and current administrative rulings and court decisions, all of which are subject to change. Later changes in these authorities may cause the tax consequences to vary substantially from the consequences described below. Unless the context otherwise requires, references in this section to "us" or "we" are references to NGL Energy Partners LP and our operating company.

The following discussion does not comment on all federal income tax matters affecting us or our unitholders. Moreover, the discussion focuses on unitholders who are individual citizens or residents of the U.S. and has only limited application to corporations, estates, trusts, nonresident aliens or other unitholders subject to specialized tax treatment, such as tax-exempt institutions, foreign persons, individual retirement accounts, or IRAs, real estate investment trusts, or REITs, or mutual funds. In addition, this discussion only comments to a limited extent on state, local and foreign tax consequences. Accordingly, we encourage each prospective unitholder to consult, and depend on, his own tax advisor in analyzing the federal, state, local and foreign tax consequences particular to him of the ownership or disposition of common units.

No ruling has been or will be requested from the Internal Revenue Service, or the IRS, regarding any matter affecting us or prospective unitholders. Instead, we will rely on opinions of Akin Gump Strauss Hauer & Feld LLP. Unlike a ruling, an opinion of counsel represents only that counsel's best legal judgment and does not bind the IRS or the courts. Accordingly, the opinions and statements made herein may not be sustained by a court if contested by the IRS. Any contest of this sort with the IRS may materially and adversely impact the market for the common units and the prices at which common units trade. In addition, the costs of any contest with the IRS, principally legal, accounting and related fees, will result in a reduction in available cash for distribution to our unitholders and our general partner and thus will be borne indirectly by our unitholders and our general partner. Furthermore, the tax treatment of us, or of an investment in us, may be significantly modified by future legislative or administrative changes or court decisions. Any modifications may or may not be retroactively applied.

All statements as to matters of law and legal conclusions, but not as to factual matters, contained in this section, unless otherwise noted, are the opinion of Akin Gump Strauss Hauer & Feld LLP and are based on the accuracy of the representations made by us.

For the reasons described below, Akin Gump Strauss Hauer & Feld LLP has not rendered an opinion with respect to the following specific federal income tax issues: (i) the treatment of a unitholder whose common units are loaned to a short seller to cover a short sale of common units (please read " Tax Consequences of Unit Ownership Treatment of Short Sales"); (ii) whether our monthly convention for allocating taxable income and losses is permitted by existing Treasury Regulations (please read " Disposition of Common Units Allocations Between Transferors and Transferees"); and (iii) whether our method for depreciating Section 743 adjustments is sustainable in certain cases (please read " Tax Consequences of Unit Ownership Section 754 Election").

**Partnership Status**

A partnership is not a taxable entity and incurs no federal income tax liability. Instead, each partner of a partnership is required to take into account his share of items of income, gain, loss and deduction of the partnership in computing his federal income tax liability, regardless of whether cash

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distributions are made to him by the partnership. Distributions by a partnership to a partner are generally not taxable to the partnership or the partner unless the amount of cash distributed to him is in excess of the partner's adjusted basis in his partnership interest.

Section 7704 of the Internal Revenue Code provides that publicly traded partnerships will, as a general rule, be taxed as corporations. However, an exception, referred to as the "Qualifying Income Exception," exists with respect to publicly traded partnerships of which 90% or more of the gross income for every taxable year consists of "qualifying income." Qualifying income includes income and gains derived from the transportation, storage and processing of crude oil, natural gas and products thereof, including the transportation and retail and wholesale marketing of propane. Other types of qualifying income include interest (other than from a financial business), dividends, gains from the sale of real property and gains from the sale or other disposition of capital assets held for the production of income that otherwise constitutes qualifying income. We estimate that less than % of our current gross income is not qualifying income; however, this estimate could change from time to time. Based upon and subject to this estimate, the factual representations made by us and our general partner and a review of the applicable legal authorities, Akin Gump Strauss Hauer & Feld LLP is of the opinion that at least 90% of our current gross income constitutes qualifying income. The portion of our income that is qualifying income may change from time to time.

No ruling has been or will be sought from the IRS and the IRS has made no determination as to our status or the status of our operating company for federal income tax purposes or whether our operations generate "qualifying income" under Section 7704 of the Internal Revenue Code. Instead, we will rely on the opinion of Akin Gump Strauss Hauer & Feld LLP on such matters. It is the opinion of Akin Gump Strauss Hauer & Feld LLP that, based upon the Internal Revenue Code, its regulations, published revenue rulings and court decisions and the representations described below, we will be classified as a partnership and our operating company will be disregarded as an entity separate from us for federal income tax purposes.

In rendering its opinion, Akin Gump Strauss Hauer & Feld LLP has relied on factual representations made by us and our general partner. The representations made by us and our general partner upon which Akin Gump Strauss Hauer & Feld LLP include the following:

Neither we nor the operating company has elected or will elect to be treated as a corporation; and

For each taxable year, more than 90% of our gross income has been and will be income that Akin Gump Strauss Hauer & Feld LLP has opined or will opine is "qualifying income" within the meaning of Section 7704(d) of the Internal Revenue Code; and

We believe that these representations have been true in the past and expect that these representations will be true in the future.

If we fail to meet the Qualifying Income Exception, other than a failure that is determined by the IRS to be inadvertent and that is cured within a reasonable time after discovery (in which case the IRS may also require us to make adjustments with respect to our unitholders or pay other amounts), we will be treated as if we had transferred all of our assets, subject to liabilities, to a newly formed corporation, on the first day of the year in which we fail to meet the Qualifying Income Exception, in return for stock in that corporation, and then distributed that stock to the unitholders in liquidation of their interests in us. This deemed contribution and liquidation should be tax-free to unitholders and us so long as we, at that time, do not have liabilities in excess of the tax basis of our assets. Thereafter, we would be treated as an association taxable as a corporation for federal income tax purposes.

If we were treated as an association taxable as a corporation in any taxable year, either as a result of a failure to meet the Qualifying Income Exception or otherwise, our items of income, gain, loss and deduction would be reflected only on our tax return rather than being passed through to our unitholders, and our net income would be taxed to us at corporate rates. In addition, any distribution

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made to a unitholder would be treated as either taxable dividend income, to the extent of our current and accumulated earnings and profits, or, in the absence of earnings and profits, a nontaxable return of capital, to the extent of the unitholder's tax basis in his common units, or taxable capital gain, after the unitholder's tax basis in his common units is reduced to zero. Accordingly, taxation as a corporation would result in a material reduction in a unitholder's cash flow and after-tax return and thus would likely result in a substantial reduction of the value of the units.

The discussion below is based on Akin Gump Strauss Hauer & Feld LLP's opinion that we will be classified as a partnership for federal income tax purposes.

**Limited Partner Status**

Unitholders who have become limited partners of NGL Energy Partners LP will be treated as partners of NGL Energy Partners LP for federal income tax purposes. Also, unitholders whose common units are held in street name or by a nominee and who have the right to direct the nominee in the exercise of all substantive rights attendant to the ownership of their common units will be treated as partners of NGL Energy Partners for federal income tax purposes.

A beneficial owner of common units whose units have been transferred to a short seller to complete a short sale would appear to lose his status as a partner with respect to those units for federal income tax purposes. Please read " Tax Consequences of Unit Ownership Treatment of Short Sales."

Income, gain, deductions or losses would not appear to be reportable by a unitholder who is not a partner for federal income tax purposes, and any cash distributions received by a unitholder who is not a partner for federal income tax purposes would therefore appear to be fully taxable as ordinary income. These holders are urged to consult their own tax advisors with respect to their tax consequences of holding common units in NGL Energy Partners LP. The references to "unitholders" in the discussion that follows are to persons who are treated as partners in NGL Energy Partners LP for federal income tax purposes.

**Tax Consequences of Unit Ownership**

***Flow-Through of Taxable Income.*** Subject to the discussion below under " Entity-Level Collections," we will not pay any U.S. federal income tax. Instead, each unitholder will be required to report on his income tax return his share of our income, gains, losses and deductions without regard to whether we make cash distributions to him. Consequently, we may allocate income to a unitholder even if he has not received a cash distribution. Each unitholder will be required to include in income his allocable share of our income, gains, losses and deductions for our taxable year ending with or within his taxable year. Our taxable year ends on December 31.

***Treatment of Distributions.*** Distributions by us to a unitholder generally will not be taxable to the unitholder for federal income tax purposes, except to the extent the amount of any such cash distribution exceeds his tax basis in his common units immediately before the distribution. Our cash distributions in excess of a unitholder's tax basis generally will be considered to be gain from the sale or exchange of the common units, taxable in accordance with the rules described under " Disposition of Common Units" below. Any reduction in a unitholder's share of our liabilities for which no partner, including the general partner, bears the economic risk of loss, known as "nonrecourse liabilities," will be treated as a distribution by us of cash to that unitholder. To the extent our distributions cause a unitholder's "at-risk" amount to be less than zero at the end of any taxable year, he must recapture any losses deducted in previous years. Please read " Limitations on Deductibility of Losses."

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A decrease in a unitholder's percentage interest in us because of our issuance of additional common units will decrease his share of our nonrecourse liabilities, and thus will result in a corresponding deemed distribution of cash. This deemed distribution may constitute a non-pro rata distribution. A non-pro rata distribution of money or property may result in ordinary income to a unitholder, regardless of his tax basis in his common units, if the distribution reduces the unitholder's share of our "unrealized receivables," including depreciation recapture, and/or substantially appreciated "inventory items," both as defined in the Internal Revenue Code, and collectively, "Section 751 Assets." To that extent, he will be treated as having been distributed his proportionate share of the Section 751 Assets and then having exchanged those assets with us in return for the non-pro rata portion of the actual distribution made to him. This latter deemed exchange will generally result in the unitholder's realization of ordinary income, which will equal the excess of (i) the non-pro rata portion of that distribution over (ii) the unitholder's tax basis (generally zero) for the share of Section 751 Assets deemed relinquished in the exchange.

**Ratio of Taxable Income to Distributions.** We estimate that a purchaser of common units in this offering who owns those common units from the date of closing of this offering through the record date for distributions for the period ending December 31, 2013, will be allocated, on a cumulative basis, an amount of federal taxable income for that period that will be 10% or less of the cash distributed with respect to that period. Thereafter, we anticipate that the ratio of allocable taxable income to cash distributions to the unitholders will increase. These estimates are based upon the assumption that gross income from operations will approximate the amount required to make the minimum quarterly distribution on all units and other assumptions with respect to capital expenditures, cash flow, net working capital and anticipated cash distributions. These estimates and assumptions are subject to, among other things, numerous business, economic, regulatory, legislative, competitive and political uncertainties beyond our control. Further, the estimates are based on current tax law and tax reporting positions that we will adopt and with which the IRS could disagree. Accordingly, we cannot assure you that these estimates will prove to be correct. The actual percentage of distributions that will constitute taxable income could be higher or lower than expected, and any differences could be material and could materially affect the value of the common units. For example, the ratio of allocable taxable income to cash distributions to a purchaser of common units in this offering will be greater, and perhaps substantially greater, than our estimate with respect to the period described above if:

gross income from operations exceeds the amount required to make minimum quarterly distributions on all units, yet we only distribute the minimum quarterly distributions on all units; or

we make a future offering of common units and use the proceeds of the offering in a manner that does not produce substantial additional deductions during the period described above, such as to repay indebtedness outstanding at the time of this offering or to acquire property that is not eligible for depreciation or amortization for federal income tax purposes or that is depreciable or amortizable at a rate significantly slower than the rate applicable to our assets at the time of this offering.

**Basis of Common Units.** A unitholder's initial tax basis for his common units will be the amount he paid for the common units plus his share of our nonrecourse liabilities. That basis will be increased by his share of our income and by any increases in his share of our nonrecourse liabilities. That basis will be decreased, but not below zero, by distributions from us, by the unitholder's share of our losses, by any decreases in his share of our nonrecourse liabilities and by his share of our expenditures that are not deductible in computing taxable income and are not required to be capitalized. A unitholder will have no share of our debt that is recourse to our general partner, but will have a share, generally based on his share of profits, of our nonrecourse liabilities. Please read "Disposition of Common Units Recognition of Gain or Loss."

**Limitations on Deductibility of Losses.** The deduction by a unitholder of his share of our losses will be limited to the tax basis in his units and, in the case of an individual unitholder, estate, trust, or a corporate unitholder (if more than 50% of the value of the corporate unitholder's stock is owned directly

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or indirectly by or for five or fewer individuals or some tax-exempt organizations) to the amount for which the unitholder is considered to be "at risk" with respect to our activities, if that is less than his tax basis. A common unitholder subject to these limitations must recapture losses deducted in previous years to the extent that distributions cause his at-risk amount to be less than zero at the end of any taxable year. Losses disallowed to a unitholder or recaptured as a result of these limitations will carry forward and will be allowable as a deduction to the extent that his at-risk amount is subsequently increased, provided such losses do not exceed such common unitholders' tax basis in his common units. Upon the taxable disposition of a unit, any gain recognized by a unitholder can be offset by losses that were previously suspended by the at-risk limitation but may not be offset by losses suspended by the basis limitation. Any loss previously suspended by the at-risk limitation in excess of that gain would no longer be utilizable.

In general, a unitholder will be at risk to the extent of the tax basis of his units, excluding any portion of that basis attributable to his share of our nonrecourse liabilities, reduced by (i) any portion of that basis representing amounts otherwise protected against loss because of a guarantee, stop loss agreement or other similar arrangement and (ii) any amount of money he borrows to acquire or hold his units, if the lender of those borrowed funds owns an interest in us, is related to the unitholder or can look only to the units for repayment. A unitholder's at-risk amount will increase or decrease as the tax basis of the unitholder's units increases or decreases, other than tax basis increases or decreases attributable to increases or decreases in his share of our nonrecourse liabilities.

In addition to the basis and at-risk limitations on the deductibility of losses, the passive loss limitations generally provide that individuals, estates, trusts and some closely-held corporations and personal service corporations can deduct losses from passive activities, which are generally trade or business activities in which the taxpayer does not materially participate, only to the extent of the taxpayer's income from those passive activities. The passive loss limitations are applied separately with respect to each publicly traded partnership. Consequently, any passive losses we generate will only be available to offset our passive income generated in the future and will not be available to offset income from other passive activities or investments, including our investments or a unitholder's investments in other publicly traded partnerships, or salary or active business income. Passive losses that are not deductible because they exceed a unitholder's share of income we generate may be deducted in full when he disposes of his entire investment in us in a fully taxable transaction with an unrelated party. The passive loss limitations are applied after other applicable limitations on deductions, including the at-risk rules and the basis limitation.

A unitholder's share of our net income may be offset by any of our suspended passive losses, but it may not be offset by any other current or carryover losses from other passive activities, including those attributable to other publicly traded partnerships.

***Limitations on Interest Deductions.*** The deductibility of a non-corporate taxpayer's "investment interest expense" is generally limited to the amount of that taxpayer's "net investment income." Investment interest expense includes:

interest on indebtedness properly allocable to property held for investment;

our interest expense attributed to portfolio income; and

the portion of interest expense incurred to purchase or carry an interest in a passive activity to the extent attributable to portfolio income.

The computation of a unitholder's investment interest expense will take into account interest on any margin account borrowing or other loan incurred to purchase or carry a unit. Net investment income includes gross income from property held for investment and amounts treated as portfolio income under the passive loss rules, less deductible expenses, other than interest, directly connected with the production of investment income, but generally does not include gains attributable to the disposition of property held for investment or (if applicable) qualified dividend income. The IRS has

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indicated that the net passive income earned by a publicly traded partnership will be treated as investment income to its unitholders. In addition, the unitholder's share of our portfolio income will be treated as investment income.

**Entity-Level Collections.** If we are required or elect under applicable law to pay any federal, state, local or foreign income tax on behalf of any unitholder or our general partner or any former unitholder, we are authorized to pay those taxes from our funds. That payment, if made, will be treated as a distribution of cash to the unitholder on whose behalf the payment was made. If the payment is made on behalf of a person whose identity cannot be determined, we are authorized to treat the payment as a distribution to all current unitholders. We are authorized to amend our partnership agreement in the manner necessary to maintain uniformity of intrinsic tax characteristics of units and to adjust later distributions, so that after giving effect to these distributions, the priority and characterization of distributions otherwise applicable under our partnership agreement is maintained as nearly as is practicable. Payments by us as described above could give rise to an overpayment of tax on behalf of an individual unitholder in which event the unitholder would be required to file a claim in order to obtain a credit or refund.

**Allocation of Income, Gain, Loss and Deduction.** In general, if we have a net profit, our items of income, gain, loss and deduction will be allocated among our general partner and the unitholders in accordance with their percentage interests in us. At any time that distributions are made to the common units in excess of distributions to the subordinated units, or incentive distributions are made to our general partner, gross income will be allocated to the recipients to the extent of these distributions. If we have a net loss, that loss will be allocated first to our general partner and the unitholders in accordance with their percentage interests in us to the extent of their positive capital accounts and, second, to our general partner.

Specified items of our income, gain, loss and deduction will be allocated to account for (i) any difference between the tax basis and fair market value of our assets at the time of an offering and (ii) any difference between the tax basis and fair market value of any property contributed to us by the general partner and its affiliates that exists at the time of such contribution, together, referred to in this discussion as the "Contributed Property." The effect of these allocations, referred to as Section 704(c) Allocations, to a unitholder purchasing common units from us in this offering will be essentially the same as if the tax bases of our assets were equal to their fair market values at the time of this offering. In the event we issue additional common units or engage in certain other transactions in the future, "reverse Section 704(c) Allocations," similar to the Section 704(c) Allocations described above, will be made to the general partner and our other unitholders immediately prior to such issuance or other transactions to account for the difference between the "book" basis for purposes of maintaining capital accounts and the fair market value of all property held by us at the time of such issuance or future transaction. In addition, items of recapture income will be allocated to the extent possible to the unitholder who was allocated the deduction giving rise to the treatment of that gain as recapture income in order to minimize the recognition of ordinary income by some unitholders. Finally, although we do not expect that our operations will result in the creation of negative capital accounts, if negative capital accounts nevertheless result, items of our income and gain will be allocated in an amount and manner sufficient to eliminate the negative balance as quickly as possible.

An allocation of items of our income, gain, loss or deduction, other than an allocation required by the Internal Revenue Code to eliminate the difference between a partner's "book" capital account, credited with the fair market value of Contributed Property, and "tax" capital account, credited with the tax basis of Contributed Property, referred to in this discussion as the "Book-Tax Disparity," will generally be given effect for federal income tax purposes in determining a partner's share of an item of income, gain, loss or deduction only if the allocation has substantial economic effect. In any other case,



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a partner's share of an item will be determined on the basis of his interest in us, which will be determined by taking into account all the facts and circumstances, including:

his relative contributions to us;

the interests of all the partners in profits and losses;

the interest of all the partners in cash flow; and

the rights of all the partners to distributions of capital upon liquidation.

Akin Gump Strauss Hauer & Feld LLP is of the opinion that, with the exception of the issues described in " Section 754 Election" and " Disposition of Common Units Allocations Between Transferors and Transferees," allocations under our partnership agreement will be given effect for federal income tax purposes in determining a partner's share of an item of income, gain, loss or deduction.

**Treatment of Short Sales.** A unitholder whose units are loaned to a "short seller" to cover a short sale of units may be considered as having disposed of those units. If so, he would no longer be treated for tax purposes as a partner with respect to those units during the period of the loan and may recognize gain or loss from the disposition. As a result, during this period:

any of our income, gain, loss or deduction with respect to those units would not be reportable by the unitholder;

any cash distributions received by the unitholder as to those units would be fully taxable; and

all of these distributions would appear to be ordinary income.

Akin Gump Strauss Hauer & Feld LLP has not rendered an opinion regarding the tax treatment of a unitholder whose common units are loaned to a short seller to cover a short sale of common units; therefore, unitholders desiring to assure their status as partners and avoid the risk of gain recognition from a loan to a short seller are urged to modify any applicable brokerage account agreements to prohibit their brokers from borrowing and loaning their units. The IRS has previously announced that it is studying issues relating to the tax treatment of short sales of partnership interests. Please also read " Disposition of Common Units Recognition of Gain or Loss."

**Alternative Minimum Tax.** Each unitholder will be required to take into account his distributive share of any items of our income, gain, loss or deduction for purposes of the alternative minimum tax. The current minimum tax rate for noncorporate taxpayers is 26% on the first \$175,000 of alternative minimum taxable income in excess of the exemption amount and 28% on any additional alternative minimum taxable income. Prospective unitholders are urged to consult with their tax advisors as to the impact of an investment in units on their liability for the alternative minimum tax.

**Tax Rates.** Under current law, the highest marginal U.S. federal income tax rate applicable to ordinary income of individuals is 35% and the highest marginal U.S. federal income tax rate applicable to long-term capital gains (generally, capital gains on certain assets held for more than twelve months) of individuals is 15%. However, absent new legislation extending the current rates, beginning January 1, 2013, the highest marginal U.S. federal income tax rate applicable to ordinary income and long-term capital gains of individuals will increase to 39.6% and 20%, respectively. Moreover, these rates are subject to change by new legislation at any time.

The recently enacted Health Care and Education Reconciliation Act of 2010 will impose a 3.8% Medicare tax on certain investment income earned by individuals, estates and trusts for taxable years beginning after December 31, 2012. For these purposes, investment income generally includes a unitholder's allocable share of our income and any gain realized by a unitholder from a sale of units. In the case of an individual, the tax will be imposed on the lesser of (i) the unitholder's net income from all investments, and (ii) the amount by which the unitholder's modified adjusted gross income exceeds \$250,000 (if the unitholder is married and filing jointly) or \$200,000 (if the unitholder is

unmarried).

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**Section 754 Election.** We will make the election permitted by Section 754 of the Internal Revenue Code. This election is irrevocable without the consent of the IRS unless there is a technical termination of the partnership. Please read "Disposition of Common Units Constructive Termination." The election will generally permit us to adjust a common unit purchaser's tax basis in our assets ("inside basis") under Section 743(b) of the Internal Revenue Code to reflect his purchase price. This election does not apply to a person who purchases common units directly from us. The Section 743(b) adjustment belongs to the purchaser and not to other unitholders. For purposes of this discussion, a unitholder's inside basis in our assets will be considered to have two components: (i) his share of our tax basis in our assets ("common basis") and (ii) his Section 743(b) adjustment to that basis.

We will adopt the remedial allocation method as to all our properties. Where the remedial allocation method is adopted, the Treasury Regulations under Section 743 of the Internal Revenue Code require a portion of the Section 743(b) adjustment that is attributable to recovery property subject to depreciation under Section 168 of the Internal Revenue Code whose book basis is in excess of its tax basis to be depreciated over the remaining cost recovery period for the property's unamortized Book-Tax Disparity. Under Treasury Regulation Section 1.167(c)-1(a)(6), a Section 743(b) adjustment attributable to property subject to depreciation under Section 167 of the Internal Revenue Code, rather than cost recovery deductions under Section 168, is generally required to be depreciated using either the straight-line method or the 150% declining balance method. Under our partnership agreement, our general partner is authorized to take a position to preserve the uniformity of units even if that position is not consistent with these and any other Treasury Regulations. Please read "Uniformity of Units."

Although Akin Gump Strauss Hauer & Feld LLP is unable to opine as to the validity of this approach because there is no direct or indirect controlling authority on this issue, we intend to depreciate the portion of a Section 743(b) adjustment attributable to unrealized appreciation in the value of Contributed Property, to the extent of any unamortized Book-Tax Disparity, using a rate of depreciation or amortization derived from the depreciation or amortization method and useful life applied to the property's unamortized Book-Tax Disparity, or treat that portion as non-amortizable to the extent attributable to property which is not amortizable. This method is consistent with the methods employed by other publicly traded partnerships but is arguably inconsistent with Treasury Regulation Section 1.167(c)-1(a)(6), which is not expected to directly apply to a material portion of our assets. To the extent this Section 743(b) adjustment is attributable to appreciation in value in excess of the unamortized Book-Tax Disparity, we will apply the rules described in the Treasury Regulations and legislative history. If we determine that this position cannot reasonably be taken, we may take a depreciation or amortization position under which all purchasers acquiring units in the same month would receive depreciation or amortization, whether attributable to common basis or a Section 743(b) adjustment, based upon the same applicable rate as if they had purchased a direct interest in our assets. This kind of aggregate approach may result in lower annual depreciation or amortization deductions than would otherwise be allowable to some unitholders. Please read "Uniformity of Units." A unitholder's tax basis for his common units is reduced by his share of our deductions (whether or not such deductions were claimed on an individual's income tax return) so that any position we take that understates deductions will overstate the common unitholder's basis in his common units, which may cause the unitholder to understate gain or overstate loss on any sale of such units. Please read "Disposition of Common Units Recognition of Gain or Loss." The IRS may challenge our position with respect to depreciating or amortizing the Section 743(b) adjustment we take to preserve the uniformity of the units. If such a challenge were sustained, the gain from the sale of units might be increased without the benefit of additional deductions.

A Section 754 election is advantageous if the transferee's tax basis in his units is higher than the units' share of the aggregate tax basis of our assets immediately prior to the transfer. In that case, as a result of the election, the transferee would have, among other items, a greater amount of depreciation deductions and his share of any gain or loss on a sale of our assets would be less. Conversely, a Section 754 election is disadvantageous if the transferee's tax basis in his units is lower than those units'

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share of the aggregate tax basis of our assets immediately prior to the transfer. Thus, the fair market value of the units may be affected either favorably or unfavorably by the election. A basis adjustment is required regardless of whether a Section 754 election is made in the case of a transfer of an interest in us if we have a substantial built-in loss immediately after the transfer, or if we distribute property and have a substantial basis reduction. Generally a built-in loss or a basis reduction is substantial if it exceeds \$250,000.

The calculations involved in the Section 754 election are complex and will be made on the basis of assumptions as to the value of our assets and other matters. For example, the allocation of the Section 743(b) adjustment among our assets must be made in accordance with the Internal Revenue Code. The IRS could seek to reallocate some or all of any Section 743(b) adjustment allocated by us to our tangible assets to goodwill instead. Goodwill, as an intangible asset, is generally nonamortizable or amortizable over a longer period of time or under a less accelerated method than our tangible assets. We cannot assure you that the determinations we make will not be successfully challenged by the IRS and that the deductions resulting from them will not be reduced or disallowed altogether. Should the IRS require a different basis adjustment to be made, and should, in our opinion, the expense of compliance exceed the benefit of the election, we may seek permission from the IRS to revoke our Section 754 election. If permission is granted, a subsequent purchaser of units may be allocated more income than he would have been allocated had the election not been revoked.

## **Tax Treatment of Operations**

**Accounting Method and Taxable Year.** We use the year ending December 31 as our taxable year and the accrual method of accounting for federal income tax purposes. Each unitholder will be required to include in income his share of our income, gain, loss and deduction for our taxable year ending within or with his taxable year. In addition, a unitholder who has a taxable year ending on a date other than December 31 and who disposes of all of his units following the close of our taxable year but before the close of his taxable year must include his share of our income, gain, loss and deduction in income for his taxable year, with the result that he will be required to include in income for his taxable year his share of more than twelve months of our income, gain, loss and deduction. Please read " Disposition of Common Units Allocations Between Transferors and Transferees."

**Initial Tax Basis, Depreciation and Amortization.** The tax basis of our assets will be used for purposes of computing depreciation and cost recovery deductions and, ultimately, gain or loss on the disposition of these assets. The federal income tax burden associated with the difference between the fair market value of our assets and their tax basis immediately prior to (i) this offering will be borne by our general partner and its affiliates, and (ii) any other offering will be borne by our general partner and other unitholders as of that time. Please read " Tax Consequences of Unit Ownership Allocation of Income, Gain, Loss and Deduction."

To the extent allowable, we may elect to use the depreciation and cost recovery methods, including bonus depreciation to the extent available, that will result in the largest deductions being taken in the early years after assets subject to these allowances are placed in service. Please read " Uniformity of Units." Property we subsequently acquire or construct may be depreciated using accelerated methods permitted by the Internal Revenue Code.

If we dispose of depreciable property by sale, foreclosure or otherwise, all or a portion of any gain, determined by reference to the amount of depreciation previously deducted and the nature of the property, may be subject to the recapture rules and taxed as ordinary income rather than capital gain. Similarly, a unitholder who has taken cost recovery or depreciation deductions with respect to property we own will likely be required to recapture some or all of those deductions as ordinary income upon a sale of his interest in us. Please read " Tax Consequences of Unit Ownership Allocation of Income, Gain, Loss and Deduction" and " Disposition of Common Units Recognition of Gain or Loss."

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The costs we incur in selling our units (called "syndication expenses") must be capitalized and cannot be deducted currently, ratably or upon our termination. There are uncertainties regarding the classification of costs as organization expenses, which may be amortized by us, and as syndication expenses, which may not be amortized by us. The underwriting discounts and commissions we incur will be treated as syndication expenses.

**Valuation and Tax Basis of Our Properties.** The federal income tax consequences of the ownership and disposition of units will depend in part on our estimates of the relative fair market values, and the initial tax bases, of our assets. Although we may from time to time consult with professional appraisers regarding valuation matters, we will make many of the relative fair market value estimates ourselves. These estimates and determinations of basis are subject to challenge and will not be binding on the IRS or the courts. If the estimates of fair market value or basis are later found to be incorrect, the character and amount of items of income, gain, loss or deductions previously reported by unitholders might change, and unitholders might be required to adjust their tax liability for prior years and incur interest and penalties with respect to those adjustments.

**Disposition of Common Units**

**Recognition of Gain or Loss.** Gain or loss will be recognized on a sale of units equal to the difference between the amount realized and the unitholder's tax basis for the units sold. A unitholder's amount realized will be measured by the sum of the cash or the fair market value of other property received by him plus his share of our nonrecourse liabilities. Because the amount realized includes a unitholder's share of our nonrecourse liabilities, the gain recognized on the sale of units could result in a tax liability in excess of any cash received from the sale.

Prior distributions from us that in the aggregate were in excess of cumulative net taxable income for a common unit that decreased a unitholder's tax basis in that common unit will, in effect, become taxable income if the common unit is sold at a price greater than the unitholder's tax basis in that common unit, even if the price received is less than his original cost.

Except as noted below, gain or loss recognized by a unitholder, other than a "dealer" in units, on the sale or exchange of a unit will generally be taxable as capital gain or loss. Capital gain recognized by an individual on the sale of units held for more than twelve months will generally be taxed at a maximum U.S. federal income tax rate of 15% through December 31, 2012 and 20% thereafter (absent new legislation extending or adjusting the current rate). However, a portion of this gain or loss, which will likely be substantial, will be separately computed and taxed as ordinary income or loss under Section 751 of the Internal Revenue Code to the extent attributable to assets giving rise to depreciation recapture or other "unrealized receivables" or to "inventory items" we own. The term "unrealized receivables" includes potential recapture items, including depreciation recapture. Ordinary income attributable to unrealized receivables, inventory items and depreciation recapture may exceed net taxable gain realized upon the sale of a unit and may be recognized even if there is a net taxable loss realized on the sale of a unit. Thus, a unitholder may recognize both ordinary income and a capital loss upon a sale of units. Capital losses may offset capital gains and no more than \$3,000 of ordinary income, in the case of individuals, and may only be used to offset capital gains in the case of corporations.

The IRS has ruled that a partner who acquires interests in a partnership in separate transactions must combine those interests and maintain a single adjusted tax basis for all those interests. Upon a sale or other disposition of less than all of those interests, a portion of that tax basis must be allocated to the interests sold using an "equitable apportionment" method, which generally means that the tax basis allocated to the interest sold equals an amount that bears the same relation to the partner's tax basis in his entire interest in the partnership as the value of the interest sold bears to the value of the partner's entire interest in the partnership. Treasury Regulations under Section 1223 of the Internal Revenue Code allow a selling unitholder who can identify common units transferred with an ascertainable holding period to elect to use the actual holding period of the common units transferred. Thus,

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according to the ruling discussed above, a common unitholder will be unable to select high or low basis common units to sell as would be the case with corporate stock, but, according to the Treasury Regulations, he may designate specific common units sold for purposes of determining the holding period of units transferred. A unitholder electing to use the actual holding period of common units transferred must consistently use that identification method for all subsequent sales or exchanges of common units. A unitholder considering the purchase of additional units or a sale of common units purchased in separate transactions is urged to consult his tax advisor as to the possible consequences of this ruling and application of the Treasury Regulations.

Specific provisions of the Internal Revenue Code affect the taxation of some financial products and securities, including partnership interests, by treating a taxpayer as having sold an "appreciated" partnership interest, one in which gain would be recognized if it were sold, assigned or terminated at its fair market value, if the taxpayer or related persons enter(s) into:

a short sale;

an offsetting notional principal contract; or

a futures or forward contract with respect to the partnership interest or substantially identical property.

Moreover, if a taxpayer has previously entered into a short sale, an offsetting notional principal contract or a futures or forward contract with respect to the partnership interest, the taxpayer will be treated as having sold that position if the taxpayer or a related person then acquires the partnership interest or substantially identical property. The Secretary of the Treasury is also authorized to issue regulations that treat a taxpayer that enters into transactions or positions that have substantially the same effect as the preceding transactions as having constructively sold the financial position.

***Allocations Between Transferors and Transferees.*** In general, our taxable income and losses will be determined annually, will be prorated on a monthly basis and will be subsequently apportioned among the unitholders in proportion to the number of units owned by each of them as of the opening of the applicable exchange on the first business day of the month, which we refer to in this prospectus as the "Allocation Date." However, gain or loss realized on a sale or other disposition of our assets other than in the ordinary course of business will be allocated among the unitholders on the Allocation Date in the month in which that gain or loss is recognized. As a result, a unitholder transferring units may be allocated income, gain, loss and deduction realized after the date of transfer.

Although simplifying conventions are contemplated by the Internal Revenue Code and most publicly traded partnerships use similar simplifying conventions, the use of this method may not be permitted under existing Treasury Regulations. Recently, however, the Department of the Treasury and the IRS issued proposed Treasury Regulations that provide a safe harbor pursuant to which a publicly traded partnership may use a similar monthly simplifying convention to allocate tax items among transferor and transferee unitholders, although such tax items must be prorated on a daily basis. Nonetheless, the proposed regulations do not specifically authorize the use of the proration method we have adopted. Existing publicly traded partnerships are entitled to rely on these proposed Treasury Regulations; however, they are not binding on the IRS and are subject to change until final Treasury Regulations are issued. Accordingly, Akin Gump Strauss Hauer & Feld LLP is unable to opine on the validity of this method of allocating income and deductions between transferor and transferee unitholders. If this method is not allowed under the Treasury Regulations, or only applies to transfers of less than all of the unitholder's interest, our taxable income or losses might be reallocated among the unitholders. We are authorized to revise our method of allocation between transferor and transferee unitholders, as well as unitholders whose interests vary during a taxable year, to conform to a method permitted under future Treasury Regulations.

A unitholder who owns units at any time during a quarter and who disposes of them prior to the record date set for a cash distribution for that quarter will be allocated items of our income, gain, loss and deductions attributable to that quarter but will not be entitled to receive that cash distribution.

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**Notification Requirements.** A unitholder who sells any of his units is generally required to notify us in writing of that sale within 30 days after the sale (or, if earlier, January 15 of the year following the sale). A purchaser of units who purchases units from another unitholder is also generally required to notify us in writing of that purchase within 30 days after the purchase. Upon receiving such notifications, we are required to notify the IRS of that transaction and to furnish specified information to the transferor and transferee. Failure to notify us of a purchase may, in some cases, lead to the imposition of penalties. However, these reporting requirements do not apply to a sale by an individual who is a citizen of the U.S. and who effects the sale or exchange through a broker who will satisfy such requirements.

**Constructive Termination.** We will be considered to have technically terminated for tax purposes if there are sales or exchanges which, in the aggregate, constitute 50% or more of the total interests in our capital and profits within a twelve-month period. For purposes of measuring whether the 50% threshold is reached, multiple sales of the same interest are counted only once. A constructive termination results in the closing of our taxable year for all unitholders. In the case of a unitholder reporting on a taxable year other than a fiscal year ending December 31, the closing of our taxable year may result in more than twelve months of our taxable income or loss being includable in his taxable income for the year of termination. A constructive termination occurring on a date other than December 31 will result in us filing two tax returns (and unitholders receiving two Schedules K-1 if the relief discussed below is unavailable) for one fiscal year and the cost of the preparation of these returns will be borne by all common unitholders. We would be required to make new tax elections after a termination, including a new election under Section 754 of the Internal Revenue Code, and a termination would result in a deferral of our deductions for depreciation. A termination could also result in penalties if we were unable to determine that the termination had occurred. Moreover, a termination might either accelerate the application of, or subject us to, any tax legislation enacted before the termination. The IRS has recently announced a relief procedure whereby if a publicly traded partnership that has technically terminated requests and the IRS grants special relief, among other things, the partnership will be required to provide only a single Schedule K-1 to unitholders for the tax years in which the termination occurs.

**Uniformity of Units**

Because we cannot match transferors and transferees of units, we must maintain uniformity of the economic and tax characteristics of the units to a purchaser of these units. In the absence of uniformity, we may be unable to completely comply with a number of federal income tax requirements, both statutory and regulatory. A lack of uniformity can result from a literal application of Treasury Regulation Section 1.167(c)-1(a)(6). Any non-uniformity could have a negative impact on the value of the units. Please read " Tax Consequences of Unit Ownership Section 754 Election."

We intend to depreciate the portion of a Section 743(b) adjustment attributable to unrealized appreciation in the value of Contributed Property, to the extent of any unamortized Book-Tax Disparity, using a rate of depreciation or amortization derived from the depreciation or amortization method and useful life applied to the property's unamortized Book-Tax Disparity, or treat that portion as nonamortizable, to the extent attributable to property the common basis of which is not amortizable, consistent with the regulations under Section 743 of the Internal Revenue Code, even though that position may be inconsistent with Treasury Regulation Section 1.167(c)-1(a)(6), which is not expected to directly apply to a material portion of our assets. Please read " Tax Consequences of Unit Ownership Section 754 Election." To the extent that the Section 743(b) adjustment is attributable to appreciation in value in excess of the unamortized Book-Tax Disparity, we will apply the rules described in the Treasury Regulations and legislative history. If we determine that this position cannot reasonably be taken, we may adopt a depreciation and amortization position under which all purchasers acquiring units in the same month would receive depreciation and amortization deductions, whether attributable to a common basis

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or Section 743(b) adjustment, based upon the same applicable methods and lives as if they had purchased a direct interest in our property. If this position is adopted, it may result in lower annual depreciation and amortization deductions than would otherwise be allowable to some unitholders and risk the loss of depreciation and amortization deductions not taken in the year that these deductions are otherwise allowable. This position will not be adopted if we determine that the loss of depreciation and amortization deductions will have a material adverse effect on the unitholders. If we choose not to utilize this aggregate method, we may use any other reasonable depreciation and amortization method to preserve the uniformity of the intrinsic tax characteristics of any units that would not have a material adverse effect on the unitholders. The IRS may challenge any method of depreciating the Section 743(b) adjustment described in this paragraph. If this challenge were sustained, the uniformity of units might be affected, and the gain from the sale of units might be increased without the benefit of additional deductions. Please read "Disposition of Common Units Recognition of Gain or Loss."

**Tax-Exempt Organizations and Other Investors**

Ownership of units by employee benefit plans, other tax-exempt organizations, non-resident aliens, foreign corporations and other foreign persons raises issues unique to those investors and, as described below, may have substantially adverse tax consequences to them. If you are a tax-exempt entity or a non-U.S. person, you should consult your tax advisor before investing in our common units.

Employee benefit plans and most other organizations exempt from federal income tax, including individual retirement accounts and other retirement plans, are subject to federal income tax on unrelated business taxable income. Virtually all of our income allocated to a unitholder that is a tax-exempt organization will be unrelated business taxable income and will be taxable to them.

Non-resident aliens and foreign corporations, trusts or estates that own units will be considered to be engaged in business in the United States because of the ownership of units. As a consequence, they will be required to file federal tax returns to report their share of our income, gain, loss or deduction and pay federal income tax at regular rates on their share of our net income or gain. Moreover, under rules applicable to publicly traded partnerships, we will withhold at the highest applicable effective tax rate from cash distributions made quarterly to foreign unitholders. Each foreign unitholder must obtain a taxpayer identification number from the IRS and submit that number to our transfer agent on a Form W-8BEN or applicable substitute form in order to obtain credit for these withholding taxes. A change in applicable law may require us to change these procedures.

In addition, because a foreign corporation that owns units will be treated as engaged in a U.S. trade or business, that corporation may be subject to the U.S. branch profits tax at a rate of 30%, in addition to regular federal income tax, on its share of our income and gain, as adjusted for changes in the foreign corporation's "U.S. net equity," which is effectively connected with the conduct of a U.S. trade or business. That tax may be reduced or eliminated by an income tax treaty between the U.S. and the country in which the foreign corporate unitholder is a "qualified resident." In addition, this type of unitholder is subject to special information reporting requirements under Section 6038C of the Internal Revenue Code.

A foreign unitholder who sells or otherwise disposes of a common unit will be subject to U.S. federal income tax on gain realized from the sale or disposition of that unit to the extent the gain is effectively connected with a U.S. trade or business of the foreign unitholder. Under a ruling published by the IRS, interpreting the scope of "effectively connected income," a foreign unitholder would be considered to be engaged in a trade or business in the United States by virtue of the U.S. activities of the partnership, and part or all of that unitholder's gain would be effectively connected with that unitholder's indirect U.S. trade or business. Moreover, under the Foreign Investment in Real Property Tax Act, a foreign common unitholder generally will be subject to U.S. federal income tax upon the sale or disposition of a common unit if (i) he owned (directly or constructively applying certain attribution rules) more than 5% of our common units at any time during the five-year period ending on the date of such



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disposition and (ii) 50% or more of the fair market value of all of our assets consisted of U.S. real property interests at any time during the shorter of the period during which such unitholder held the common units or the five-year period ending on the date of disposition. Currently, more than 50% of our assets consist of U.S. real property interests and we do not expect that to change in the foreseeable future. Therefore, foreign unitholders may be subject to federal income tax on gain from the sale or disposition of their units.

**Administrative Matters**

**Information Returns and Audit Procedures.** We intend to furnish to each unitholder, within 90 days after the close of each calendar year, specific tax information, including a Schedule K-1, which describes his share of our income, gain, loss and deduction for our preceding taxable year. In preparing this information, which will not be reviewed by counsel, we will take various accounting and reporting positions, some of which have been mentioned earlier, to determine each unitholder's share of income, gain, loss and deduction. We cannot assure you that those positions will yield a result that conforms to the requirements of the Internal Revenue Code, Treasury Regulations or administrative interpretations of the IRS. Neither we nor Akin Gump Strauss Hauer & Feld LLP can assure prospective unitholders that the IRS will not successfully contend in court that those positions are impermissible. Any challenge by the IRS could negatively affect the value of the units.

The IRS may audit our federal income tax information returns. Adjustments resulting from an IRS audit may require each unitholder to adjust a prior year's tax liability, and possibly may result in an audit of his return. Any audit of a unitholder's return could result in adjustments not related to our returns as well as those related to our returns.

Partnerships generally are treated as separate entities for purposes of federal tax audits, judicial review of administrative adjustments by the IRS and tax settlement proceedings. The tax treatment of partnership items of income, gain, loss and deduction are determined in a partnership proceeding rather than in separate proceedings with the partners. The Internal Revenue Code requires that one partner be designated as the "Tax Matters Partner" for these purposes. Our partnership agreement names NGL Energy Holdings LLC, our general partner, as our Tax Matters Partner.

The Tax Matters Partner has made and will make some elections on our behalf and on behalf of unitholders. In addition, the Tax Matters Partner can extend the statute of limitations for assessment of tax deficiencies against unitholders for items in our returns. The Tax Matters Partner may bind a unitholder with less than a 1% profits interest in us to a settlement with the IRS unless that unitholder elects, by filing a statement with the IRS, not to give that authority to the Tax Matters Partner. The Tax Matters Partner may seek judicial review, by which all the unitholders are bound, of a final partnership administrative adjustment and, if the Tax Matters Partner fails to seek judicial review, judicial review may be sought by any unitholder having at least a 1% interest in profits or by any group of unitholders having in the aggregate at least a 5% interest in profits. However, only one action for judicial review will go forward, and each unitholder with an interest in the outcome may participate.

A unitholder must file a statement with the IRS identifying the treatment of any item on his federal income tax return that is not consistent with the treatment of the item on our return. Intentional or negligent disregard of this consistency requirement may subject a unitholder to substantial penalties.

**Nominee Reporting.** Persons who hold an interest in us as a nominee for another person are required to furnish to us:

the name, address and taxpayer identification number of the beneficial owner and the nominee;

whether the beneficial owner is:

a person that is not a U.S. person;

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a foreign government, an international organization or any wholly owned agency or instrumentality of either of the foregoing; or

a tax-exempt entity;

the amount and description of units held, acquired or transferred for the beneficial owner; and

specific information including the dates of acquisitions and transfers, means of acquisitions and transfers, and acquisition cost for purchases, as well as the amount of net proceeds from sales.

Brokers and financial institutions are required to furnish additional information, including whether they are U.S. persons and specific information on units they acquire, hold or transfer for their own account. A penalty of \$100 per failure, up to a maximum of \$1,500,000 per calendar year, is imposed by the Internal Revenue Code for failure to report that information to us. The nominee is required to supply the beneficial owner of the units with the information furnished to us.

***Accuracy-Related Penalties.*** An additional tax equal to 20% of the amount of any portion of an underpayment of tax that is attributable to one or more specified causes, including negligence or disregard of rules or regulations, substantial understatements of income tax and substantial valuation misstatements, is imposed by the Internal Revenue Code. No penalty will be imposed, however, for any portion of an underpayment if it is shown that there was a reasonable cause for that portion and that the taxpayer acted in good faith regarding that portion.

For individuals, a substantial understatement of income tax in any taxable year exists if the amount of the understatement exceeds the greater of 10% of the tax required to be shown on the return for the taxable year or \$5,000 (\$10,000 for most corporations). The amount of any understatement subject to penalty generally is reduced if any portion is attributable to a position adopted on the return:

for which there is, or was, "substantial authority"; or

as to which there is a reasonable basis and the pertinent facts of that position are disclosed on the return.

If any item of income, gain, loss or deduction included in the distributive shares of unitholders might result in that kind of an "understatement" of income for which no "substantial authority" exists, we must disclose the pertinent facts on our return. In addition, we will make a reasonable effort to furnish sufficient information for unitholders to make adequate disclosure on their returns and to take other actions as may be appropriate to permit unitholders to avoid liability for this penalty. More stringent rules apply to "tax shelters," which we do not believe includes us, or any of our investments, plans or arrangements.

A substantial valuation misstatement exists if (a) the value of any property, or the adjusted basis of any property, claimed on a tax return is 150% or more of the amount determined to be the correct amount of the valuation or adjusted basis, (b) the price for any property or services (or for the use of property) claimed on any such return with respect to any transaction between persons described in Internal Revenue Code Section 482 is 200% or more (or 50% or less) of the amount determined under Section 482 to be the correct amount of such price, or (c) the net Internal Revenue Code Section 482 transfer price adjustment for the taxable year exceeds the lesser of \$5 million or 10% of the taxpayer's gross receipts.

No penalty is imposed unless the portion of the underpayment attributable to a substantial valuation misstatement exceeds \$5,000 (\$10,000 for most corporations). If the valuation claimed on a return is 200% or more than the correct valuation, the penalty imposed increases to 40%. We do not anticipate making any valuation misstatements.

In addition, the 20% accuracy-related penalty also applies to any portion of an underpayment of tax that is attributable to transactions lacking economic substance. To the extent that such transactions

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are not disclosed, the penalty imposed is increased to 40%. Additionally, there is not reasonable cause defense to the imposition of this penalty to such transactions.

**Reportable Transactions.** If we were to engage in a "reportable transaction," we (and possibly you and others) would be required to make a detailed disclosure of the transaction to the IRS. A transaction may be a reportable transaction based upon any of several factors, including the fact that it is a type of tax avoidance publicly identified by the IRS as a "listed transaction" or that it produces certain kinds of losses for partnerships, individuals, S corporations, and trusts in excess of \$2 million in any single year, or \$4 million in any combination of 6 successive tax years. Our participation in a reportable transaction could increase the likelihood that our federal income tax information return (and possibly your tax return) would be audited by the IRS. Please read " Information Returns and Audit Procedures."

Moreover, if we were to participate in a reportable transaction with a significant purpose to avoid or evade tax, or in any listed transaction, you may be subject to the following:

accuracy-related penalties with a broader scope, significantly narrower exceptions, and potentially greater amounts than described above at " Accuracy-Related Penalties";

for those persons otherwise entitled to deduct interest on federal tax deficiencies, nondeductibility of interest on any resulting tax liability; and

in the case of a listed transaction, an extended statute of limitations.

We do not expect to engage in any "reportable transactions."

**State, Local, Foreign and Other Tax Considerations**

In addition to federal income taxes, you likely will be subject to other taxes, such as state, local and foreign income taxes, unincorporated business taxes, and estate, inheritance or intangible taxes that may be imposed by the various jurisdictions in which we do business or own property or in which you are a resident. Although an analysis of those various taxes is not presented here, each prospective unitholder should consider their potential impact on his investment in us. We will own property or do business in a number of jurisdictions, including Georgia, Illinois, Indiana, Kansas, Mississippi, Missouri, Oklahoma and Texas. Each of these states, other than Texas, imposes a personal income tax on individuals. Most of these states also impose an income tax on corporations and other entities. We may also own property or do business in other jurisdictions in the future. Although you may not be required to file a return and pay taxes in some jurisdictions because your income from that jurisdiction falls below the filing and payment requirement, you will be required to file income tax returns and to pay income taxes in many of these jurisdictions in which we do business or own property and may be subject to penalties for failure to comply with those requirements. In some jurisdictions, tax losses may not produce a tax benefit in the year incurred and may not be available to offset income in subsequent taxable years. Some of the jurisdictions may require us, or we may elect, to withhold a percentage of income from amounts to be distributed to a unitholder who is not a resident of the jurisdiction. Withholding, the amount of which may be greater or less than a particular unitholder's income tax liability to the jurisdiction, generally does not relieve a nonresident unitholder from the obligation to file an income tax return. Amounts withheld will be treated as if distributed to unitholders for purposes of determining the amounts distributed by us. Please read " Tax Consequences of Unit Ownership Entity-Level Collections." Based on current law and our estimate of our future operations, our general partner anticipates that any amounts required to be withheld will not be material.

**The personal tax consequences of an investment in us may vary among unitholders under the laws of pertinent jurisdictions and, therefore, each prospective unitholder is urged to consult, and depend upon, his tax counsel or other advisor with regard to those matters. Further, it is the responsibility of each unitholder to file all state, local and foreign, as well as U.S. federal, tax returns that may be required of him. Akin Gump Strauss Hauer & Feld LLP has not rendered an opinion on the state, local or foreign tax consequences of an investment in us.**

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**INVESTMENT IN NGL ENERGY PARTNERS LP BY EMPLOYEE BENEFIT PLANS**

An investment in us by an employee benefit plan is subject to additional considerations because the investments of these plans are subject to the fiduciary responsibility and prohibited transaction provisions of ERISA and the restrictions imposed by Section 4975 of the Internal Revenue Code and provisions under any federal, state, local, non-U.S. or other laws or regulations that are similar to such provisions of the Internal Revenue Code or ERISA, or, collectively, the Similar Laws. For these purposes the term "employee benefit plan" includes, but is not limited to, qualified pension, profit-sharing and stock bonus plans, Keogh plans, simplified employee pension plans and tax deferred annuities or individual retirement accounts or annuities, or IRAs, established or maintained by an employer or employee organization, and entities whose underlying assets are considered to include "plan assets" of such plans, accounts and arrangements. Among other things, consideration should be given to:

whether the investment is prudent under Section 404(a)(1)(B) of ERISA and any other applicable Similar Laws;

whether in making the investment, the plan will satisfy the diversification requirements of Section 404(a)(1)(C) of ERISA and any other applicable Similar Laws;

whether the investment will result in recognition of unrelated business taxable income by the plan and, if so, the potential after-tax investment return. Please read "Material Tax Consequences Tax-Exempt Organizations and Other Investors"; and

whether making such an investment will comply with the delegation of control and prohibited transaction provisions of ERISA, the Internal Revenue Code and any other applicable Similar Laws.

The person with investment discretion with respect to the assets of an employee benefit plan, often called a fiduciary, should determine whether an investment in us is authorized by the appropriate governing instrument and is a proper investment for the plan.

Section 406 of ERISA and Section 4975 of the Internal Revenue Code prohibit employee benefit plans, and IRAs that are not considered part of an employee benefit plan, from engaging in specified transactions involving "plan assets" with parties that, with respect to the plan, are "parties in interest" under ERISA or "disqualified persons" under the Internal Revenue Code unless an exemption is available. A party in interest or disqualified person who engages in a non-exempt prohibited transaction may be subject to excise taxes and other penalties and liabilities under ERISA and the Internal Revenue Code. In addition, the fiduciary of the ERISA plan that engaged in such a non-exempt prohibited transaction may be subject to penalties and liabilities under ERISA and the Internal Revenue Code.

In addition to considering whether the purchase of common units is a prohibited transaction, a fiduciary should consider whether the plan will, by investing in us, be deemed to own an undivided interest in our assets, with the result that our general partner would also be a fiduciary of such plan and our operations would be subject to the regulatory restrictions of ERISA, including its prohibited transaction rules, as well as the prohibited transaction rules of the Internal Revenue Code, ERISA and any other applicable Similar Laws.

The Department of Labor regulations provide guidance with respect to whether, in certain circumstances, the assets of an entity in which employee benefit plans acquire equity interests would be deemed "plan assets." Under these regulations, an entity's assets would not be considered to be "plan assets" if, among other things:

- (a) the equity interests acquired by the employee benefit plan are publicly offered securities i.e., the equity interests are widely held by 100 or more investors independent of the issuer and each other, are freely transferable and are registered under certain provisions of the federal securities laws;

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- (b) the entity is an "operating company," i.e., it is primarily engaged in the production or sale of a product or service, other than the investment of capital, either directly or through a majority-owned subsidiary or subsidiaries; or
- (c) there is no significant investment by benefit plan investors, which is defined to mean that less than 25% of the value of each class of equity interest is held by the employee benefit plans referred to above that are subject to ERISA and IRAs and other similar vehicles that are subject to Section 4975 of the Internal Revenue Code.

Our assets should not be considered "plan assets" under these regulations because it is expected that the investment will satisfy the requirements in (a) and (b) above.

In light of the serious penalties imposed on persons who engage in prohibited transactions or other violations, plan fiduciaries contemplating a purchase of common units should consult with their own counsel regarding the consequences under ERISA, the Internal Revenue Code and other Similar Laws.

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**UNDERWRITING**

Wells Fargo Securities, LLC and RBC Capital Markets, LLC are acting as joint book-running managers for this offering and as representatives of the underwriters named below. Subject to the terms and conditions of the underwriting agreement, we have agreed to sell to the underwriters, and the underwriters have agreed to purchase from us, the number of common units set forth opposite their names below:

<b>Underwriters</b>	<b>Number of Common Units</b>
Wells Fargo Securities, LLC	
RBC Capital Markets, LLC	
SunTrust Robinson Humphrey, Inc.	
BMO Capital Markets Corp.	
Robert W. Baird & Co. Incorporated	
Janney Montgomery Scott LLC	
BOSC, Inc.	
 Total	 3,500,000

The underwriting agreement provides that the obligations of the several underwriters are subject to various conditions, including approval of legal matters by counsel. The common units are offered by the underwriters, subject to prior sale, when, as and if issued to and accepted by them. The underwriters reserve the right to withdraw, cancel or modify the offer and to reject orders in whole or in part.

The underwriting agreement provides that the underwriters are obligated to purchase all the common units offered by this prospectus if any are purchased, other than those common units covered by the underwriters' option to purchase additional units from us described below. If an underwriter defaults, the underwriting agreement provides that the purchase commitments of the non-defaulting underwriters may be increased or the underwriting agreement may be terminated.

**Option to Purchase Additional Common Units**

We have granted the underwriters an option, exercisable for 30 days after the date of the underwriting agreement, to purchase up to an additional 525,000 common units from us at the initial public offering price less the underwriting discounts and commissions and a structuring fee, as set forth on the cover page of this prospectus, and less any dividends or distributions declared, paid or payable on the common units that the underwriters have agreed to purchase from us but that are not payable on such additional common units, to cover over-allotments, if any. If the underwriters exercise this option in whole or in part, then the underwriters will be severally committed, subject to the conditions described in the underwriting agreement, to purchase the additional common units in proportion to their respective commitments set forth in the prior table.

The net proceeds from the issuance and sale of any of the last 175,000 common units of the underwriters' option to purchase additional common units from us will be used to redeem common units from the NGL Energy LP Investor Group. Members of the NGL Energy LP Investor Group will be deemed to be underwriters with respect to any common units that we redeem from them, if any.

**Discounts and Commissions**

The common units sold by the underwriters to the public will initially be offered at the initial public offering price set forth on the cover of this prospectus and to certain dealers at that price less a concession of not more than \$            per share, of which up to \$            per share may be reallocated to other dealers. After the initial offering, the public offering price, concession and reallocation to dealers may be changed.

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The following table summarizes the underwriting discounts and commissions and the proceeds, before expenses, payable to us, both on a per unit basis and in total, assuming either no exercise or full exercise by the underwriters of their option to purchase additional common units from us:

		Total	
	Per Common Unit	Without Option	With Option
Public offering price	\$		
Underwriting discounts and commissions	\$		
Proceeds, before expenses, to us	\$	\$	\$

In addition, we will pay Wells Fargo Securities, LLC, a structuring fee equal to 0.5% of the gross proceeds from this offering for the evaluation, analysis and structuring of our partnership.

We estimate that the expenses of this offering payable by us, not including underwriting discounts and commissions and a structuring fee, will be approximately \$3.4 million.

**Indemnification of Underwriters**

The underwriting agreement provides that we will indemnify the underwriters against specified liabilities, including liabilities under the Securities Act, or contribute to payments that the underwriters may be required to make in respect of those liabilities.

**Lock-Up Agreements**

We, our general partner and certain of its affiliates, and the directors and executive officers of our general partner have agreed, subject to certain exceptions, that, without the prior written consent of Wells Fargo Securities, LLC, we and they will not, during the period beginning on and including the date of this prospectus through and including the date that is the 180<sup>th</sup> day after the date of this prospectus, directly or indirectly:

issue (in the case of us), offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend or otherwise transfer or dispose of any of our common units or any securities convertible into or exercisable or exchangeable for our common units, except that we may issue common units or any securities convertible or exchangeable into our common units as payment of any part of the purchase price for businesses that we acquire; provided that any recipient of such common units must agree in writing to be bound by these provisions for the remainder of the lock-up period;

in the case of us, file or cause the filing of any registration statement under the Securities Act with respect to any of our common units or any securities convertible into or exercisable or exchangeable for our common units (other than (i) any Rule 462(b) registration statement filed to register securities to be sold to the underwriters pursuant to the underwriting agreement, (ii) any registration statement on Form S-8 to register common units or options to purchase common units pursuant to the long-term incentive plan, and (iii) any registration statement in connection with our entrance into a definitive agreement relating to an acquisition; or

enter into any swap or other agreement, arrangement, hedge or transaction that transfers to another, in whole or in part, directly or indirectly, any of the economic consequences of ownership of our common units or any securities convertible into or exercisable or exchangeable for our common units,

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whether any transaction described in any of the foregoing bullet points is to be settled by delivery of our common units, other securities, in cash or otherwise; or publicly announce an intention to do any of the foregoing. Moreover, if:

during the last 17 days of the lock-up period, we issue an earnings release or material news or a material event relating to us occurs; or

prior to the expiration of the lock-up period, we announce that we will release earnings results or become aware that material news on a material event relating to us will occur during the 16-day period beginning on the last day of the lock-up period,

the restrictions described in the immediately preceding sentence will continue to apply until the expiration of the 18-day period beginning on the issuance of the earnings release or the occurrence of the material news or material event, as the case may be, unless Wells Fargo Securities, LLC waives, in writing, that extension.

Wells Fargo Securities, LLC may, in its sole discretion and at any time or from time to time, without notice, release all or any portion of the common units or other securities subject to the lock-up agreements. Any determination to release any common units or other securities subject to the lock-up agreements would be based on a number of factors at the time of determination, which may include the market price of the common units, the liquidity of the trading market for the common units, general market conditions, the number of common units or other securities proposed to be sold or otherwise transferred and the timing, purpose and terms of the proposed sale or other transfer.

**Electronic Distribution**

This prospectus and the registration statement of which this prospectus forms a part may be made available in electronic format on the websites maintained by one or more of the underwriters. The underwriters may agree to allocate a number of common units for sale to their online brokerage account holders. The common units will be allocated to underwriters that may make Internet distributions on the same basis as other allocations. In addition, common units may be sold by the underwriters to securities dealers who resell common units to online brokerage account holders. Other than the information set forth in this prospectus and the registration statement of which this prospectus forms a part, information contained in any website maintained by an underwriter is not part of this prospectus or the registration statement of which this prospectus forms a part, has not been endorsed by us and should not be relied on by investors in deciding whether to purchase common units. The underwriters are not responsible for information contained in websites that they do not maintain.

**New York Stock Exchange**

Our common units have been cleared to apply to list on the New York Stock Exchange, subject to official notice of issuance, under the symbol "NGL." The underwriters have undertaken to sell the minimum number of common units to the minimum number of beneficial owners necessary to meet the NYSE distribution requirements for trading.

**Stabilization**

In order to facilitate this offering of our common units, the underwriters may engage in transactions that stabilize, maintain or otherwise affect the market price of our common units. Specifically, the underwriters may sell more common units than they are obligated to purchase under the underwriting agreement, creating a short position. A short sale is covered if the short position is no greater than the number of common units available for purchase by the underwriters under their option to purchase additional common units from us. The underwriters may close out a covered short sale by exercising their option to purchase additional common units from us or purchasing common units in the open market. In determining the source of common units to close out a covered short sale, the underwriters



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may consider, among other things, the market price of common units compared to the price payable under their option to purchase additional common units from us. The underwriters may also sell common units in excess of the number of common units available under their option to purchase additional common units from us, creating a naked short position. The underwriters must close out any naked short position by purchasing common units in the open market. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of the common units in the open market after the date of pricing of this offering that could adversely affect investors who purchase in this offering.

As an additional means of facilitating this offering, the underwriters may bid for, and purchase, common units in the open market to stabilize the price of our common units, so long as stabilizing bids do not exceed a specified maximum. The underwriting syndicate may also reclaim selling concessions allowed to an underwriter or a dealer for distributing common units in this offering if the underwriting syndicate repurchases previously distributed common units to cover syndicate short positions or to stabilize the price of the common units.

The foregoing transactions, if commenced, may raise or maintain the market price of our common stock above independent market levels or prevent or retard a decline in the market price of the common stock.

The foregoing transactions, if commenced, may be effected on the NYSE or otherwise. Neither we nor any of the underwriters makes any representation that the underwriters will engage in any of these transactions and these transactions, if commenced, may be discontinued at any time without notice. Neither we nor any of the underwriters makes any representation or prediction as to the direction or magnitude of the effect that the transactions described above, if commenced, may have on the market price of our common stock.

**Discretionary Accounts**

The underwriters have informed us that they do not intend to confirm sales to accounts over which they exercise discretionary authority in excess of 5% of the total number of common units offered by them.

**Pricing of This Offering**

Prior to this offering, there has been no public market for our common units. Consequently, the initial public offering price for our common units was determined between us and the representatives of the underwriters. The factors considered in determining the initial public offering price included:

prevailing market conditions;

our results of operations and financial condition;

financial and operating information and market valuations with respect to other companies that we and the representative of the underwriters believe to be comparable or similar to us;

the present state of our development; and

our future prospects.

An active trading market for our common units may not develop. It is possible that the market price of our common units after this offering will be less than the initial public offering price. In addition, the estimated initial public offering price range appearing on the cover of this preliminary prospectus is subject to change as a result of market conditions or other factors.



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**Relationships**

Affiliates of Wells Fargo Securities, LLC and SunTrust Robinson Humphrey, Inc. have performed commercial banking services for us for which they have received customary fees and expenses. Certain of the underwriters and their affiliates may in the future provide various investment banking, commercial banking, advisory and other financial services to us and our affiliates for which they may in the future receive customary fees and expenses. Affiliates of Wells Fargo Securities, LLC, RBC Capital Markets, LLC, BOSCO, Inc. and SunTrust Robinson Humphrey, Inc. are lenders under our revolving credit facility and will receive their proportionate share of the repayment of borrowings outstanding under our revolving credit facility by us in connection with this offering.

This offering is being made in compliance with Rule 2310 of the Financial Industry Regulatory Authority. Investor suitability with respect to the common units should be judged similarly to the suitability with respect to other securities that are listed for trading on a national securities exchange.

**Sales Outside the United States**

No action has been or will be taken in any jurisdiction (except in the United States) that would permit a public offering of our common units, or the possession, circulation or distribution of this prospectus or any other material relating to us or the common units in any jurisdiction where action for that purpose is required. Accordingly, the common units may not be offered or sold, directly or indirectly, and neither of this prospectus nor any other offering material or advertisements in connection with the common units may be distributed or published, in or from any country or jurisdiction except in compliance with any applicable rules and regulations of any such country or jurisdiction.

Each of the underwriters may arrange to sell common units offered by this prospectus in certain jurisdictions outside the United States, either directly or through affiliates, where they are permitted to do so. In that regard, Wells Fargo Securities, LLC may arrange to sell common units in certain jurisdictions through an affiliate, Wells Fargo Securities International Limited, or WFSIL. WFSIL is a wholly owned indirect subsidiary of Wells Fargo & Company and an affiliate of Wells Fargo Securities, LLC. WFSIL is a U.K. incorporated investment firm regulated by the Financial Services Authority. Wells Fargo Securities is the trade name for certain corporate and investment banking services of Wells Fargo & Company and its affiliates, including Wells Fargo Securities, LLC and WFSIL.

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**VALIDITY OF THE COMMON UNITS**

The validity of the common units will be passed upon for us by Akin Gump Strauss Hauer & Feld LLP, Houston, Texas. Certain legal matters in connection with the common units offered hereby will be passed upon for the underwriters by Latham & Watkins LLP.

**EXPERTS**

The financial statements of NGL Supply, Inc. as of March 31, 2010 and 2009 and for each of the three years in the period ended March 31, 2010 included in this prospectus have been so included in reliance on the report of BDO USA, LLP an independent registered public accounting firm, appearing elsewhere herein, given on the authority of said firm as experts in accounting and auditing.

The audited financial statements of the businesses of Hicks Oils & Hicksgas, Incorporated contributed to NGL Energy Partners LP as of June 30, 2010 and 2009, and for the years ended June 30, 2010, 2009 and 2008, have been so included herein in reliance upon the report of Grant Thornton LLP, independent certified public accountants, upon the authority of said firm as experts in accounting and auditing in giving said report.

The audited financial statements of the businesses of Hicksgas Gifford, Inc. sold to NGL Energy Partners LP as of December 31, 2009 and 2008, and for the years ended December 31, 2009, 2008 and 2007, have been so included herein in reliance upon the report of Grant Thornton LLP, independent certified public accountants, upon the authority of said firm as experts in accounting and auditing in giving said report.

The audited balance sheet of NGL Energy Partners LP as of September 30, 2010 has been so included herein in reliance upon the report of Grant Thornton LLP, independent registered public accountants, upon the authority of said firm as experts in accounting and auditing in giving said report.

**WHERE YOU CAN FIND MORE INFORMATION**

We have filed with the SEC a registration statement on Form S-1 regarding the common units. This prospectus does not contain all of the information found in the registration statement. For further information regarding us and the common units offered by this prospectus, you may desire to review the full registration statement, including its exhibits and schedules, filed under the Securities Act. The registration statement of which this prospectus forms a part, including its exhibits and schedules, may be inspected and copied at the public reference room maintained by the SEC at 100 F Street, N.E., Washington, D.C. 20549. Copies of the materials may also be obtained from the SEC at prescribed rates by writing to the public reference room maintained by the SEC at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. You may obtain information on the operation of the public reference room by calling the SEC at 1-800-SEC-0330. The SEC maintains a website on the Internet at <http://www.sec.gov>. Our registration statement, of which this prospectus constitutes a part, can be downloaded from the SEC's website.

We intend to furnish our unitholders annual reports containing our audited consolidated financial statements and to furnish or make available to our unitholders quarterly reports containing our unaudited interim financial information for the first three fiscal quarters of each of our fiscal years.

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**FORWARD-LOOKING STATEMENTS**

Some of the information in this prospectus may contain forward-looking statements. These statements can be identified by the use of forward-looking terminology including "will," "may," "believe," "expect," "anticipate," "assume," "forecast," "predict," "intend," "plan," "estimate," "potential," "continue," or the negative of those terms or other variations of them or comparable terminology. These statements discuss future expectations, contain projections of results of operations or of financial condition or state other "forward-looking" information. These forward-looking statements involve risks and uncertainties, many of which are beyond our ability to control or predict. When considering these forward-looking statements, you should keep in mind the risk factors and other cautionary statements in this prospectus. The risk factors and other factors noted throughout this prospectus could cause our actual results to differ materially from those contained in any forward-looking statement. Factors that could cause our actual results to differ materially from the results contemplated by such forward-looking statements include:

changes in general economic conditions;

competitive conditions in our industry;

changes in the availability and cost of capital;

operating hazards, natural disasters, weather-related delays, casualty losses and other matters beyond our control;

the effects of existing and future laws and governmental regulations;

the effects of future litigation; and

certain factors discussed elsewhere in this prospectus.

All forward-looking statements are expressly qualified in their entirety by the foregoing cautionary statements.

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**NGL ENERGY PARTNERS LP**  
**Unaudited Pro Forma Condensed Consolidated Financial Statements**

**Introduction**

Set forth below are the unaudited pro forma condensed consolidated balance sheet as of December 31, 2010 and the unaudited pro forma condensed consolidated statements of operations for the year ended March 31, 2010 and the nine months ended December 31, 2010 for NGL Energy Partners LP. "NGL Energy Partners LP," "we," "our," "us" or similar terms refer to NGL Energy Partners LP and its operating subsidiaries.

Our unaudited pro forma condensed consolidated financial statements should be read in conjunction with (i) the audited and unaudited financial statements of NGL Supply, Inc., or NGL Supply; (ii) the unaudited financial statements of NGL Energy Partners LP; (iii) the audited and unaudited financial statements of the businesses of Hicks Oils & Hicksgas, Incorporated contributed to NGL Energy Partners LP, or Hicks LLC; and (iv) the audited and unaudited financial statements of the businesses of Hicksgas Gifford, Inc. sold to NGL Energy Partners LP, or Gifford; in each case as included elsewhere in this prospectus. These unaudited pro forma condensed consolidated financial statements are based on (a) the audited historical results of operations of NGL Supply for the year ended March 31, 2010; (b) the unaudited historical results of operations of NGL Energy Partners LP for the three months ended December 31, 2010; (c) the unaudited historical results of operations for NGL Supply for the six months ended September 30, 2010; (d) the audited historical results of operations of Hicks LLC and Gifford for their fiscal years ended June 30, 2010 and December 31, 2009, respectively; and (e) the unaudited historical results of operations of Hicks LLC and Gifford for the six months ended September 30, 2010 (not included herein).

Our unaudited pro forma condensed consolidated financial statements present the unaudited pro forma condensed consolidated balance sheet of NGL Energy Partners LP as of December 31, 2010, after giving pro forma effect to the transactions described below under "Offering Transactions" as if the Offering Transactions occurred on December 31, 2010. Our unaudited pro forma condensed consolidated financial statements present the unaudited condensed consolidated statements of operations of NGL Energy Partners LP for the year ended March 31, 2010 and the nine months ended December 31, 2010, after giving pro forma effect to the transactions described below under "Acquisition Transactions" and "Offering Transactions" (collectively, the "Transactions") as if the Transactions occurred on April 1, 2009.

Our unaudited pro forma condensed consolidated financial statements do not include an adjustment for the estimated incremental increase in general and administrative expenses over historical levels as a result of our becoming a publicly-traded partnership. We estimate that such increase in costs will be approximately \$1.0 million. In addition, our unaudited pro forma condensed consolidated financial statements do not give any effect to any restructuring costs, potential cost savings, or other operating efficiencies that are expected to result from the Transactions.

Our unaudited pro forma condensed consolidated financial statements do not include the planned distribution of \$3.8 million to the NGL Energy LP Investor Group to be paid in May 2011.

Our unaudited pro forma condensed consolidated financial statements are based on certain assumptions and do not purport to be indicative of the results that actually would have been achieved if the Transactions were completed on the applicable dates. Moreover, they do not project our financial position or results of operations for any future date or period.

**Acquisition Transactions**

On October 14, 2010, we purchased the propane-related assets and assumed certain related obligations from Hicks LLC and Gifford, which we collectively refer to as Hicksgas, for a combination of our common units and a payment of approximately \$17.1 million, a total consideration, including assumed

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**NGL ENERGY PARTNERS LP**  
**Unaudited Pro Forma Condensed Consolidated Financial Statements (Continued)**

liabilities, of approximately \$62.9 million (the "Acquisition"). The Acquisition was accounted for as a business combination using the acquisition method of accounting with NGL Supply as the acquirer. Hicks LLC and Gifford were determined to be the acquired entities.

Our unaudited pro forma condensed consolidated financial statements give effect to the following transactions related to the Acquisition that occurred on October 14, 2010, which we refer to as the "Acquisition Transactions":

Our entry into our new revolving credit facility that is more fully described in "Management's Discussion and Analysis of Financial Condition and Results of Operations New Revolving Credit Facility."

The issuance of 1,272,288 (4,735,328 as adjusted for the unit split described under "Offering Transactions") of our common units and an immediate distribution of \$40.0 million to the shareholders of NGL Supply as a result of the Acquisition, and the financing of the cash distribution with amounts borrowed under our revolving credit facility.

Our acquisition of certain assets and assumed liabilities of Hicks LLC in exchange for the issuance by us of 1,116,300 (4,154,757 as adjusted for the unit split) of our common units and the payment of approximately \$1.6 million.

Our purchase of substantially all of the assets and certain assumed liabilities of Gifford with a cash payment of \$15.5 million, which was financed with amounts borrowed under our revolving credit facility.

The issuance of 549,043 (2,043,483 as adjusted for the unit split) of our common units for cash contributions to us of approximately \$11.0 million from the IEP Parties, which IEP Parties are described in the tables in "Summary Formation Transactions and Partnership Structure."

We had no operations from September 8, 2010, the date of our inception, to September 30, 2010. Our unaudited condensed consolidated balance sheet and results of operations as of and for the three months ended December 31, 2010 include the businesses contributed by or acquired from NGL Supply, Hicks LLC and Gifford. Our historical operations for the year ended March 31, 2010 and the six months ended September 30, 2010 reflected in these unaudited pro forma condensed consolidated financial statements are those of NGL Supply prior to the Acquisition. NGL Supply's historical business consists principally of the retail distribution of propane; wholesale supply and marketing of propane and other natural gas liquids; and midstream propane operations. NGL Supply's operations are located primarily in the Northeast, Southeast and Midwest regions of the United States. The common units we issued to the shareholders of NGL Supply were recorded at the historical net equity value of NGL Supply at the time of the Acquisition since NGL Supply was determined to be the acquiring entity.

The acquisition cost of the assets and liabilities from Hicks LLC and Gifford reflected in our unaudited pro forma condensed consolidated balance sheet as of December 31, 2010, was as follows:

	<b>In Thousands</b>
Estimated value of common units issued	\$ 22,326
Cash payments	17,128
Fair value of liabilities assumed in the Acquisition	23,432
 Total acquisition cost allocated to assets acquired	 \$ 62,886

We valued the common units issued to the shareholders of Hicks LLC at \$20 per unit based on the per unit price paid by the owners of the IEP Parties in the Acquisition.





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**NGL ENERGY PARTNERS LP**  
**Unaudited Pro Forma Condensed Consolidated Financial Statements (Continued)**

In our unaudited condensed consolidated balance sheet as of December 31, 2010, the total acquisition date fair values of the combined Hicks LLC and Gifford assets were preliminarily estimated as follows:

	<b>In Thousands</b>
Current assets	\$ 15,527
Property, plant and equipment	35,891
Intangible assets	4,146
Goodwill	7,322
<b>Total</b>	<b>\$ 62,886</b>

Our unaudited pro forma condensed consolidated financial statements reflect fair value measurements that are preliminary as the final determination of the acquisition date fair values of assets acquired and liabilities assumed in the Acquisition has not been completed. We have engaged an appraisal firm to prepare an appraisal of the Hicks LLC and Gifford tangible and identifiable intangible assets to support the business combination accounting. This appraisal is expected to be completed by May 31, 2011. The business combination accounting is affected by the amount of current assets and liabilities at the closing date of the Acquisition due to a post-closing working capital adjustment. We believe that the final business combination accounting will be completed by June 30, 2011. The estimated fair values reflected in our unaudited pro forma condensed consolidated financial statements are based on the best estimates available at this time. There is no guarantee that the estimated fair values of assets acquired and liabilities assumed, and consequently our unaudited pro forma condensed consolidated financial statements, will not change. To the extent that the final allocation results in an increased amount of goodwill, this amount would not be subject to amortization, but would be subject to an annual impairment testing and if necessary, written-down to a lower fair value should circumstances warrant. To the extent the final business combination accounting results in a decrease to the amount of estimated goodwill, the amount would be subject to depreciation or amortization that would result in a decrease to the estimated pro forma income in our unaudited pro forma condensed consolidated statements of operations for the respective periods.

**Offering Transactions**

Our unaudited pro forma condensed consolidated financial statements give pro forma effect to the following transactions, which we refer to as the "Offering Transactions":

The split of each common unit held by the members of the NGL Energy LP Investor Group, as that term is defined in "Summary," into 3.7219 common units.

The conversion of 5,919,346 common units held by the members of the NGL Energy LP Investor Group on a pro rata basis into 5,919,346 subordinated units.

The assumed issuance of approximately 3.5 million common units in this offering resulting in estimated proceeds of approximately \$62.0 million, net of estimated offering costs of approximately \$8.0 million, as described in "Use of Proceeds."

The application of the net proceeds from this offering as described in "Use of Proceeds."

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**NGL ENERGY PARTNERS LP**  
**Unaudited Pro Forma Condensed Consolidated Financial Statements (Continued)**

We currently estimate that the initial public offering price of our common units will be \$20.00 per common unit. Our estimate of offering costs is as follows:

	<b>In Thousands</b>
Underwriting fees, discounts and commissions	\$ 4,900
Accounting and legal costs	2,400
Printing costs	300
Other	400
Estimated total offering costs	\$ 8,000

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**NGL ENERGY PARTNERS LP**  
**Unaudited Pro Forma Condensed Consolidated Balance Sheet**  
**As of December 31, 2010**  
**(U.S. Dollars in Thousands)**

	NGL Energy Partners LP Historical	Offering Transactions Pro Forma Adjustments Amount	Note 2	Pro Forma
<b>ASSETS</b>				
Current assets:				
Cash	\$ 5,771	\$ 63,070 (63,070)	(a) (b)	\$ 5,771
Accounts receivable	79,264			79,264
Inventories	56,653			56,653
Other current assets	4,281	(1,000)	(a)	3,281
Total current assets	145,969	(1,000)		144,969
Property, plant and equipment, net	62,969			62,969
Goodwill	11,902			11,902
Intangible assets, net	12,563			12,563
Total assets	\$ 233,403	\$ (1,000)		\$ 232,403
<b>LIABILITIES AND EQUITY</b>				
Current liabilities:				
Trade accounts payable	\$ 67,755	\$		\$ 67,755
Accrued expenses and other payables	4,251			4,251
Product exchanges	7,878			7,878
Advance payments received from customers	24,206			24,206
Current maturities of long-term debt	19,255			19,255
Total current liabilities	123,345			123,345
Long-term debt, net of current maturities	68,617	(63,070)	(b)	5,547
Other non-current liabilities	444			444
Commitments and contingencies				
Equity:				
General partner, representing a 0.1% interest, 2,941 notional units (14,449 notional units on a pro forma basis)	65	70	(a)	135
Limited partners, representing a 99.9% interest				
Public, on a pro forma basis, 3,500,000 common units issued and outstanding		62,000		62,000
NGL Energy LP Investor Group, 2,937,631 common units issued and outstanding (5,014,222 common units on a pro forma basis)	40,900	(22,143)		18,757
NGL Energy LP Investor Group, on a pro forma basis, 5,919,346		22,143		22,143

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subordinated units issued and  
outstanding

Accumulated other comprehensive  
income

32

32

Total equity

40,997

62,070

103,067

Total liabilities and equity

\$ 233,403

\$ (1,000)

\$ 232,403

See accompanying notes.

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**NGL ENERGY PARTNERS LP**  
**Unaudited Pro Forma Condensed Consolidated Statement of Operations**  
**For the Year Ended March 31, 2010**  
**(U.S. Dollars In Thousands, except per share or per unit amounts)**

	NGL Supply Year Ended March 31, 2010	Historical Hicks LLC Year Ended June 30, 2010	Gifford Year Ended Dec. 31, 2009	Formation Transactions Pro Forma Adjustments				Offering Transactions Pro Forma Adjustments		Pro Forma
				Amount	Note 2	Subtotal	Amount	Note 2		
<b>Revenues:</b>										
Retail propane	\$ 26,967	\$ 72,311	\$ 19,777	\$ (11,714)	(f)	\$ 107,341	\$			\$ 107,341
Wholesale supply and marketing	704,436			(6,247)	(f)	698,189				698,189
Midstream	4,103					4,103				4,103
<b>Total revenues</b>	<b>735,506</b>	<b>72,311</b>	<b>19,777</b>	<b>(17,961)</b>		<b>809,633</b>				<b>809,633</b>
<b>Cost of Sales:</b>										
Retail propane	15,603	49,669	12,226	(11,714)	(f)	65,784				65,784
Wholesale supply and marketing	692,145			(6,247)	(f)	685,898				685,898
Midstream	467					467				467
<b>Total cost of sales</b>	<b>708,215</b>	<b>49,669</b>	<b>12,226</b>	<b>(17,961)</b>		<b>752,149</b>				<b>752,149</b>
<b>Gross Margin</b>	<b>27,291</b>	<b>22,642</b>	<b>7,551</b>			<b>57,484</b>				<b>57,484</b>
<b>Operating Costs and Expenses:</b>										
Operating, general and administrative	17,849	18,244	4,871			40,964				40,964
Depreciation and amortization	2,781	2,049	545	1,379	(h)	6,754				6,754
<b>Operating Income</b>	<b>6,661</b>	<b>2,349</b>	<b>2,135</b>	<b>(1,379)</b>		<b>9,766</b>				<b>9,766</b>
<b>Interest and Other Income (Expense):</b>										
Interest expense	(668)	(540)	(2)			(1,210)	1,210	(b)		(2,422)
							(2,422)	(c)		
<b>Other, net</b>	<b>115</b>	<b>260</b>	<b>135</b>			<b>510</b>				<b>510</b>
<b>Income before income tax provision</b>	<b>6,108</b>	<b>2,069</b>	<b>2,268</b>	<b>(1,379)</b>		<b>9,066</b>	<b>(1,212)</b>			<b>7,854</b>
<b>Income tax provision</b>	<b>2,478</b>	<b>800</b>		<b>(3,278)</b>	(i)					
<b>Net income</b>	<b>3,630</b>	<b>1,269</b>	<b>2,268</b>	<b>1,899</b>		<b>9,066</b>	<b>(1,212)</b>			<b>7,854</b>
<b>Net loss attributable to noncontrolling interest</b>	<b>6</b>			<b>(6)</b>	(j)					

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Net income attributable to parent equity	\$	3,636	\$	1,269	\$	2,268	\$	1,893		\$	9,066	\$	(1,212)		\$	7,854
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## Earnings per unit or share

Common stock Basic	\$	178.75
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Common stock Diluted	\$	176.61
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Limited partner common units (basic and diluted)		\$	3.08		\$	0.54
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Limited partner subordinated units (basic and diluted)		\$			\$	0.54
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## Weighted average units or shares

Common stock Basic	19,603	(19,603)
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Common stock Diluted	19,840	(19,840)
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Limited partner common units, basic and diluted (Note 3)	2,937,631	(k)	2,937,631	3,500,000	(d)	8,514,222
				2,076,591	(e)	

Limited partner subordinated units basic and diluted (Note 3)				5,919,346	(e)	5,919,346
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See accompanying notes.

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**NGL ENERGY PARTNERS LP**  
**Unaudited Pro Forma Condensed Consolidated Statement of Operations**  
**For the Nine Months Ended December 31, 2010**  
**(U.S. Dollars In Thousands, except per unit amounts)**

	Historical				Formation Transactions		Offering Transactions		
	Three Months Ended December 31, 2010	Six Months Ended September 30, 2010			Pro Forma Adjustments		Pro Forma Adjustments		Pro Forma
	NGL Energy Partners LP	NGL Supply	Hicks LLC	Gifford	Amount	Note 2	Sub Total	Amount	Note 2
<b>Revenues:</b>									
Retail propane	\$ 31,662	\$ 6,868	\$ 18,339	\$ 4,583	\$ (2,349)	(f)	\$ 59,103		\$ 59,103
Wholesale supply and marketing	278,263	309,029			(595)	(f)	586,697		586,697
Midstream	1,212	1,046					2,258		2,258
Total revenues	311,137	316,943	18,339	4,583	(2,944)		648,058		648,058
<b>Cost of Sales:</b>									
Retail propane	20,697	4,749	11,520	2,622	(2,349)	(f)	37,239		37,239
Wholesale supply and marketing	270,623	305,965			(595)	(f)	575,993		575,993
Midstream	153	194					347		347
Total cost of sales	291,473	310,908	11,520	2,622	(2,944)		613,579		613,579
Gross Margin	19,664	6,035	6,819	1,961			34,479		34,479
<b>Operating Costs and Expenses:</b>									
Operating, general and administrative	10,747	8,441	9,306	2,869	(2,064)	(g)	29,299		29,299
Depreciation and amortization	1,696	1,389	1,061	150	689	(h)	4,985		4,985
Operating Income (Loss)	7,221	(3,795)	(3,548)	(1,058)	1,375		195		195
<b>Interest and Other Income (Expense)</b>									
Interest expense	(1,314)	(372)	(240)	(3)			(1,929)	1,929 (b)	(1,817) (c)
Other, net	149	190	87	54			480		480
Income (Loss) Before Income Tax	6,056	(3,977)	(3,701)	(1,007)	1,375		(1,254)	112	(1,142)
Income Tax Provision (Benefit)		(1,417)	(1,845)		3,262	(i)			



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Net Income									
(Loss)	6,056	(2,560)	(1,856)	(1,007)	(1,887)	(1,254)	112	(1,142)	
Net Loss									
Attributable to									
Noncontrolling									
Interest		45			(45)	(j)			

Net Income																				
(Loss)																				
Attributable to																				
Parent Equity	\$	6,056	\$	(2,515)	\$	(1,856)	\$	(1,007)	\$	(1,932)		\$	(1,254)	\$	112		\$	(1,142)		

Basic and diluted earnings per limited partner unit																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																				
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Subordinated units	\$		\$		\$	0.08
--------------------	----	--	----	--	----	------

Basic and									
diluted									
weighted									
average limited									
partner units									
Common units	2,937,631					2,937,631	3,500,000	(d)	8,514,222

2,076,591 (e)

Subordinated									
units							5,919,346	(e)	5,919,346

See accompanying notes.

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**NGL ENERGY PARTNERS LP**  
**Notes to Unaudited Pro Forma Condensed Consolidated Financial Statements**

**Note 1 Basis of Presentation**

See " Introduction" for more information regarding the basis of presentation for our unaudited pro forma condensed consolidated financial statements.

See Note 10 to the unaudited condensed consolidated financial statements of NGL Energy Partners LP for additional information pertaining to our partners' equity as of December 31, 2010.

**Note 2 Pro Forma Adjustments**

Our pro forma condensed consolidated financial statements reflect the impact of the following adjustments:

*Offering Transactions Adjustments*

- (a) Reflects the estimated proceeds from the issuance of common units in this offering, net of issuance costs of \$8.0 million, of which \$1.0 million had been incurred as of December 31, 2010 and a \$70,000 general partner contribution to maintain its 0.1% interest.
- (b) Reflects the utilization of the net proceeds from the Offering Transactions and general partner contribution to make a partial payment of the historical long-term debt as of December 31, 2010 and the related elimination of historical interest expense.
- (c) Reflects the interest expense on the net amount borrowed under our revolving credit facility (approximately \$23.4 million) after the application of proceeds from this offering at an average interest rate of 5.75%. A change of 0.125% in the interest rate would result in a change in annual pro forma interest expense of approximately \$29,000. In addition, this includes the amortization of debt issuance costs of \$1.1 million per year. See Note 7 to the unaudited financial statements of NGL Energy Partners LP as of December 31, 2010 for additional information related to our revolving credit facility, including a summary of the material covenants and repayment terms.
- (d) Reflects the estimated number of common units issued in this offering.
- (e) Reflects the effect of the 3.7219 to 1 unit split and conversion of 5,919,346 common units to subordinated units effected immediately prior to the completion of this offering.

*Acquisition Transactions Adjustments*

- (f) Eliminates the effects of intercompany propane sales between Hicks LLC and Gifford and between NGL Supply and Hicks LLC on revenues and cost of sales.
- (g) Reflects the elimination of expenses incurred directly in connection with the Acquisition through December 31, 2010.



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**NGL ENERGY PARTNERS LP**  
**Notes to Unaudited Pro Forma Condensed Consolidated Financial Statements (Continued)**

(h)

The acquisition cost of Hicks LLC and Gifford was preliminarily allocated as follows:

Description and Useful Life	In Thousands
Accounts receivable	\$ 6,298
Propane inventory	6,625
Other current assets	2,604
Property, plant and equipment:	
Tanks (15 years)	22,213
Vehicles (5 years)	6,173
Buildings (30 years)	6,241
Other equipment (5 years)	1,264
Amortizable intangible assets:	
Customer relationships (15 years)	3,278
Non-compete agreements (5 years)	868
Goodwill	7,322
	\$ 62,886

This allocation is preliminary. The final allocation will be made using the independent appraisal of the tangible and intangible assets upon completion and the results of the working capital adjustment. The pro forma depreciation and amortization adjustment reflects the estimated net adjustment to depreciation and amortization expense resulting from the acquisition costs allocation to property, plant and equipment, identifiable intangible assets and goodwill acquired in the Acquisition. Goodwill is an indefinite-lived asset subject to annual tests for impairment, thus no amortization has been reflected in our unaudited pro forma condensed consolidated financial statements for the amount allocated to goodwill. An increase in the depreciable and amortizable assets of Hicks LLC and Gifford of \$0.1 million would result in an increase to annual depreciation and amortization expense of approximately \$10,000 (an average rate of approximately 10%).

(i)

Reflects the elimination of the historical income tax expense or benefit of NGL Supply and Hicks LLC. NGL Supply and Hicks LLC each made elections to be treated as pass through entities for federal income tax purposes just prior to the Acquisition.

(j)

Reflects the effect of the Acquisition of the noncontrolling interest in the Acquisition Transactions.

(k)

Represents the units issued in the Acquisition Transactions prior to the unit split of            to 1.

### **Note 3 Pro Forma Earnings per Unit Computation**

Our net income for income statement presentation and partners' capital purposes is allocated to our general partner and limited partners in accordance with their respective ownership interests, and in accordance with our partnership agreement after giving effect to any priority income allocations for incentive distributions, if any, to our general partner, the holders of the incentive distribution rights pursuant to our partnership agreement, which are declared and paid following the close of each quarter. These incentive distributions could result in less income allocable to the common and subordinated unitholders.

For purposes of computing pro forma basic and diluted net income per common unit, we have assumed that (a) the minimum quarterly distributions would have been paid to all unitholders for each



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**NGL ENERGY PARTNERS LP**  
**Notes to Unaudited Pro Forma Condensed Consolidated Financial Statements (Continued)**

quarter during the periods presented, and (b) there would be no incentive distributions to the general partner. Any earnings in excess of distributions are allocated to our general partner and limited partners based on their respective ownership interests.

The pro forma earnings per unit have been computed under the two-class method based on earnings or losses allocated to the limited partners after deducting the total earnings allocation to the general partner. The computation is based on the number of common and subordinated units expected to be outstanding after the unit split, the conversion of common units to subordinated units and the completion of the offering. The pro forma basic and diluted earnings per unit are equal as there are no dilutive units at the date of closing of the initial public offering of our common units. The computation of weighted average units outstanding is provided below.

	For the Year Ended March 31, 2010			For the Nine Months Ended December 31, 2010		
	Subtotal After Acquisition			Subtotal After Acquisition		
	Historical NGL Supply	Transactions Pro forma Adjustments	Pro Forma	Historical NGL Energy	Transactions Pro Forma Adjustments	Pro Forma
Net income (loss) to parent equity	\$ 3,636	\$ 9,066	\$ 7,854	\$ 6,056	\$ (1,254)	\$ (1,142)
Preferred stock dividends	(132)					
General partner 0.1% share of income		(9)	(8)	(6)	1	1
General partner incentive distributions						
Income (loss) allocated to limited partners	\$ 3,504	\$ 9,057	\$ 7,846	\$ 6,050	\$ (1,253)	\$ (1,141)
Common unitholders	\$ 3,504	\$ 9,057	\$ 4,628	\$ 6,050	\$ (1,253)	\$ (673)
Subordinated unitholders	\$	\$	\$ 3,218	\$	\$	\$ (468)
Basic and Diluted Earnings per Limited Partner Unit						
Common unitholders		\$ 3.08	\$ 0.54	\$ 2.06	\$ (0.43)	\$ (0.08)
Subordinated unitholders		\$	\$ 0.54	\$	\$	\$ (0.08)
Basic Earnings per Common Stock of NGL Supply	\$ 178.75					
Diluted Earnings per Common Stock of NGL Supply	\$ 176.61					

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The weighted average limited partner units outstanding are computed as follows. We have assumed that all units were outstanding during the entire period for each of the periods presented.

	<b>Common Units</b>	<b>Subordinated Units</b>	<b>Total</b>
Units issued and outstanding in the Acquisition Transactions	2,937,631		2,937,631
Effect of 3.7219 to 1 unit split	7,995,937		7,995,937
Conversion of common units to subordinated units	(5,919,346)	5,919,346	
Common units to be issued in the Offering Transactions	3,500,000		3,500,000
<b>Total pro forma units issued and outstanding</b>	<b>8,514,222</b>	<b>5,919,346</b>	<b>14,433,568</b>

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**Report of Independent Registered Public Accounting Firm**

Partners

NGL Energy Partners LP

We have audited the accompanying consolidated balance sheet of NGL Energy Partners LP (a Delaware limited partnership) and its subsidiary as of September 30, 2010. This financial statement is the responsibility of the Partnership's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. The Partnership is not required to have, nor were we engaged to perform an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Partnership's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated balance sheet referred to above presents fairly, in all material respects, the financial position of NGL Energy Partners LP, and its subsidiary as of September 30, 2010, in conformity with accounting principles generally accepted in the United States of America.

/s/ GRANT THORNTON LLP

Tulsa, Oklahoma  
February 11, 2011



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**NGL ENERGY PARTNERS LP**  
**Consolidated Balance Sheet**  
**As of September 30, 2010**  
**(U.S. Dollars in Thousands)**

**September 30,  
2010**

**ASSETS**

**CURRENT ASSETS:**

Cash and cash equivalents	\$	1
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**LIABILITIES AND EQUITY**

**COMMITMENTS AND  
CONTINGENCIES**

**EQUITY:**

General partner		1
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Limited partner

Total equity	\$	1
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The accompanying notes are an integral part of this financial statement.

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**NGL ENERGY PARTNERS LP**  
**Notes to Consolidated Balance Sheet**  
**As of September 30, 2010**

**Note 1 Organization and Operations**

NGL Energy Partners LP (formerly, Silverthorne Energy Partners LP, "we" or the "Partnership") is a Delaware limited partnership formed on September 8, 2010 to own, and through its subsidiaries, to operate, a retail propane, wholesale supply and marketing, and midstream propane terminal business. Our general partner is NGL Energy Holdings LLC (the "General Partner").

On October 14, 2010, we executed a series of transactions (the "Combination") with NGL Supply, Inc. (NGL Supply) in which we issued to the former NGL Supply shareholders 1,272,288 of our limited partner common units and approximately \$40.0 million. We also issued in the Combination 1,116,300 limited partner common units and approximately \$1.6 million to the shareholders of Hicks Oils & Hicksgas, Incorporated ("Hicksgas") in exchange for the propane-related assets and assumed liabilities of Hicksgas, and approximately \$15.5 million to the shareholders of Hicksgas Gifford ("Gifford") for essentially all of the assets and assumed liabilities of Gifford. In addition, we issued 549,043 limited partner common units to a group of investors (the "IEP Parties") for approximately \$11.0 million.

The Combination has been accounted for as a business combination. NGL Supply has been deemed to be the acquiring entity in the Combination. NGL Supply's historical core business consists principally of the retail distribution of propane; wholesale supply and marketing of propane and other natural gas liquids; and midstream propane terminal operations. NGL Supply's operations are located primarily in the Northeast, Southeast and Midwest regions of the United States and certain terminal operations in Canada.

Hicksgas and Gifford were determined to be acquired entities in the Combination. Their historical core business is the retail distribution of propane, with operations in Indiana and Illinois.

The accompanying consolidated balance sheet represents our financial position as of September 30, 2010. We had no operations during the period from our formation on September 8, 2010 to September 30, 2010. Accordingly, no statements of operations or cash flows are required.

**Note 2 Long-Term Debt**

On October 14, 2010, the Partnership and its subsidiaries entered into a credit agreement (the "Credit Agreement") with a group of banks that, as amended in January and February 2011, provided for a total credit facility of \$180.0 million, represented by an acquisition revolving commitment of \$130.0 million and a working capital revolving commitment of \$50.0 million. Borrowings under the working capital revolving commitment are subject to a defined borrowing base. The working capital revolving commitment allows for letter of credit advances of up to \$50.0 million and swingline loans of up to \$5.0 million.

The Credit Agreement has a final maturity on October 14, 2014. Once a year, between March 31 and September 30, the Partnership must prepay the outstanding working capital revolving loans and collateralize outstanding letters of credit in order to reduce the total working capital borrowings to less than \$10.0 million for 30 consecutive days. In addition, until the Partnership completes an equity offering, on or before October 14 each year, the Partnership must repay outstanding principal amounts of the acquisition revolving loans by at least \$7.5 million.

Borrowings under the Credit Agreement bear interest at designated interest rates depending on the computed "leverage ratio", which is the ratio of total indebtedness (as defined) at any determination date to consolidated EBITDA for the period of the four fiscal quarters most recently ended. Interest is payable quarterly. The initial interest rates vary from LIBOR plus 3%-3.75% for any LIBOR borrowings (the bank's prime rate plus 2% to 2.75%) depending upon the leverage ratio. The scheduled interest rates

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**NGL ENERGY PARTNERS LP**  
**Notes to Consolidated Balance Sheet (Continued)**  
**As of September 30, 2010**

will be adjusted upward by 0.25% in the event we have not completed a public or private equity offering of at least \$50.0 million by April 14, 2011.

The Partnership's subsidiaries are designated as joint and several borrowers under the Credit Agreement. The Partnership and each of the borrowers are designated as guarantors under the Credit Agreement.

Substantially all of our assets are pledged as collateral under the Credit Agreement.

**Note 3 Commitments and Contingencies**

The Partnership's operations are subject to all operating hazards and risks normally incidental to handling, storing, transporting and otherwise providing for use by consumers of combustible liquids such as propane. As a result, at any given time the Partnership and its subsidiaries are a defendant in various legal proceedings and litigation arising in the ordinary course of business. The Partnership maintains insurance policies with insurers in amounts and with coverages and deductibles as its general partner believes are reasonable and prudent. However, no assurance can be given that this insurance will be adequate to protect the Partnership from all material expenses related to potential future claims for personal and property damage or that these levels of insurance will be available in the future at economical prices. In addition, the occurrence of an explosion may have an adverse effect on the public's desire to use the Partnership's products.

**Note 4 Equity**

*Partnership Equity*

The Partnership's equity consists of a 0.1% general partner equity and a 99.9% limited partner equity. Limited partner equity consists of common and subordinated common units. The limited partner units share equally in the allocation of income or loss. The principal difference between common and subordinated common units is that in any quarter during the subordination period, holders of the subordinated units are not entitled to receive any distribution until the common units have received the minimum quarterly distribution plus any arrearages in the payment of the minimum quarterly distribution from prior quarters. Subordinated units will not accrue arrearages.

When the subordination period ends, all subordinated units will convert into common units on a one-for-one basis and all common units thereafter will no longer be entitled to arrearages.

*Distributions*

Upon completion of the Partnership's initial public offering, the general partner is expected to adopt a cash distribution policy that will require the Partnership to pay a quarterly distribution to the extent it has sufficient cash from operations after establishment of cash reserves and payment of fees and expenses, including payments to the general partner and its affiliates, referred to as "available cash," in the following manner:

First, 99.9% to the holders of common units and 0.1% to the general partner, until each common unit has received the specified minimum quarterly distribution, plus any arrearages from prior quarters.

Second, 99.9% to the holders of subordinated units and 0.1% to the general partner, until each subordinated unit has received the specified minimum quarterly distribution.

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Third, 99.9% to all unitholders, pro rata, and 0.1% to the general partner.

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**NGL ENERGY PARTNERS LP**  
**Notes to Consolidated Balance Sheet (Continued)**  
**As of September 30, 2010**

The general partner will also receive, in addition to distributions on its 0.1% general partner interest, additional distributions based on the level of distributions to the limited partners. These distributions are referred to as "incentive distributions."

**Note 5 Income Taxes**

We expect to qualify as a partnership for income taxes. As such, we will not pay any U.S. Federal income tax. Rather, each owner will report their share of the Partnership's income or loss on their individual tax returns.

**Note 6 Events Subsequent to Date of Report of Independent Registered Public Accounting Firm (unaudited)**

During April 2011, we amended our Credit Agreement to increase our acquisition revolving commitment from \$130.0 million to \$150.0 million, which increased the total credit facility from \$180.0 million to \$200.0 million.

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**NGL ENERGY PARTNERS LP  
AND NGL SUPPLY, INC.  
Unaudited Condensed Consolidated Balance Sheets  
As of December 31, 2010 and March 31, 2010  
(U.S. Dollars in Thousands, except per unit amounts)**

	NGL Energy Partners LP December 31, 2010	NGL Supply, Inc. March 31, 2010
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 5,771	\$ 24,238
Accounts receivable, net of allowance for doubtful accounts of \$17 and \$235, respectively	79,264	37,183
Inventories	56,653	7,283
Product exchanges	221	2,746
Other current assets	4,060	1,335
Total current assets	145,969	72,785
PROPERTY, PLANT AND EQUIPMENT, net of accumulated depreciation of \$1,255 and \$7,652, respectively	62,969	28,685
GOODWILL	11,902	4,457
INTANGIBLE ASSETS, net of accumulated amortization of \$719 and \$6,686, respectively	12,563	5,628
OTHER ASSETS		25
Total assets	\$ 233,403	\$ 111,580
<b>LIABILITIES AND EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Trade accounts payable	\$ 67,755	\$ 35,373
Accrued expenses and other payables	4,251	4,745
Product exchanges	7,878	1,005
Advance payments received from customers	24,206	6,229
Current maturities of long-term debt	19,255	752
Total current liabilities	123,345	48,104
LONG-TERM DEBT, net of current maturities	68,617	8,348
NON-CURRENT DEFERRED TAX LIABILITY		5,222
OTHER NON-CURRENT LIABILITIES	444	503
COMMITMENTS AND CONTINGENCIES		
REDEEMABLE PREFERRED STOCK		3,000
<b>EQUITY:</b>		
NGL Energy Partners LP, per accompanying statement	65	
General Partner 0.1% interest;		

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2,941 notional units

Limited Partners 99.9% interest,  
represented by 2,937,631 common  
units

40,900

Accumulated other comprehensive  
income

Foreign currency translation

32

Net equity of NGL Supply, Inc., per  
accompanying statement

46,403

Total equity

40,997

46,403

Total liabilities and equity

\$

233,403

\$

111,580

The accompanying notes are an integral part of these consolidated financial statements.

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**NGL ENERGY PARTNERS LP  
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**Three Months Ended December 31, 2009, and the**  
**Six Months Ended September 30, 2010 and 2009**  
**(U.S. Dollars in Thousands, except per share amounts)**

	<b>NGL Energy Partners LP</b>		<b>NGL Supply, Inc.</b>	
	<b>Three Months Ended December 31, 2010</b>	<b>Three Months Ended December 31, 2009</b>	<b>Six Months Ended September 30, 2010</b>	<b>Six Months Ended September 30, 2009</b>
<b>REVENUES:</b>				
Retail propane	\$ 31,662	\$ 8,245	\$ 6,868	\$ 6,377
Wholesale supply and marketing	278,263	227,735	309,029	190,844
Midstream	1,212	1,517	1,046	1,106
<b>Total Revenues</b>	<b>311,137</b>	<b>237,497</b>	<b>316,943</b>	<b>198,327</b>
<b>COST OF SALES:</b>				
Retail propane	20,697	5,074	4,749	3,479
Wholesale supply and marketing	270,623	220,905	305,965	188,400
Midstream	153	125	194	192
	291,473	226,104	310,908	192,071
<b>Gross Margin</b>	<b>19,664</b>	<b>11,393</b>	<b>6,035</b>	<b>6,256</b>
<b>OPERATING COSTS AND EXPENSES:</b>				
Operating	8,330	2,761	5,231	4,514
General and administrative	2,417	1,035	3,210	1,828
Depreciation and amortization	1,696	744	1,389	1,442
<b>Operating Income (Loss)</b>	<b>7,221</b>	<b>6,853</b>	<b>(3,795)</b>	<b>(1,528)</b>
<b>OTHER INCOME (EXPENSE):</b>				
Interest income	93	23	66	56
Interest expense	(1,314)	(190)	(372)	(220)
Other, net	56	3	124	31
<b>Income (Loss) Before Income Taxes</b>	<b>6,056</b>	<b>6,689</b>	<b>(3,977)</b>	<b>(1,661)</b>
<b>INCOME TAX (PROVISION) BENEFIT</b>				
		(2,479)	1,417	605
<b>Net Income (Loss)</b>	<b>6,056</b>	<b>4,210</b>	<b>(2,560)</b>	<b>(1,056)</b>
Net Income Allocated to General Partner	6			
Net Loss Attributable to Noncontrolling Interest		4	45	7
Net Income (Loss) Attributable to Limited Partners or Parent Equity	\$ 6,050	\$ 4,214	\$ (2,515)	\$ (1,049)
<b>Basic Net Income (Loss) Per Common Unit or Share</b>	<b>\$ 2.06</b>	<b>\$ 213.28</b>	<b>\$ (128.45)</b>	<b>\$ (55.25)</b>



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Diluted Net Income (Loss) Per Common Unit or Share	\$	2.06	\$	210.74	\$	(128.45)	\$	(55.25)
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Weighted average common units  
outstanding:

Basic	2,937,631
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Diluted	2,937,631
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Weighted average common shares  
outstanding:

Basic	19,603	19,711	19,603
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Diluted	19,840	19,711	19,603
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The accompanying notes are an integral part of these consolidated financial statements.

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**NGL ENERGY PARTNERS LP  
AND NGL SUPPLY, INC.**  
**Unaudited Condensed Consolidated Statements of Comprehensive Income (Loss)**  
**Three Months Ended December 31, 2010, and**  
**Three Months Ended December 31, 2009, and the**  
**Six Months Ended September 30, 2010 and 2009**  
**(U.S. Dollars in Thousands)**

	<b>NGL Energy Partners LP</b>		<b>NGL Supply, Inc.</b>	
	<b>Three Months Ended December 31, 2010</b>	<b>Three Months Ended December 31, 2009</b>	<b>Six Months Ended September 30, 2010</b>	<b>Six Months Ended September 30, 2009</b>
Net income (loss)	\$ 6,056	\$ 4,210	\$ (2,560)	\$ (1,056)
Other comprehensive income (loss), net of tax:				
Change in foreign currency translation adjustment	32	18	(15)	161
Comprehensive income (loss)	\$ 6,088	\$ 4,228	\$ (2,575)	\$ (895)

The accompanying notes are an integral part of these consolidated financial statements.

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**NGL ENERGY PARTNERS LP  
AND NGL SUPPLY, INC.  
Unaudited Condensed Consolidated Statement of Changes in Equity  
Three Months Ended December 31, 2010 and the  
Six Months Ended September 30, 2010  
(U.S. Dollars in Thousands)**

	Class A Common Stock		Additional Paid-in Capital		Retained Earnings	Accumulated Other Comprehensive Income (Loss)		Receivable From Exercise of Stock Option	Noncontrolling Interest	Total Equity
	Shares	Amount								
<b>NGL SUPPLY, INC.</b>										
Six Months Ended September 30, 2010:										
BALANCES, MARCH 31, 2010	19,603	\$ 196	\$ 36,039	\$ 9,859	\$ 84	\$		\$ 225	\$ 46,403	
Exercise of stock options	650	7	1,423				(1,430)			
Net loss				(2,515)				(45)	(2,560)	
Foreign currency translation adjustment						(15)			(15)	
Dividends										
Common stock (\$357 per share)				(7,000)					(7,000)	
Preferred stock				(17)					(17)	
BALANCES, SEPTEMBER 30, 2010	20,253	\$ 203	\$ 37,462	\$ 327	\$ 69	\$ (1,430)	\$ 180	\$ 36,811		

	General Partner	Limited Partners Common Units	Amount	Accumulated Other Comprehensive Income	Total Equity
<b>NGL ENERGY PARTNERS LP</b>					
Three Months Ended December 31, 2010:					
Combination transaction with NGL Supply, Inc.	\$	1,272,288	\$ 1,544	\$	\$ 1,544
Acquisition of Hicksgas		1,116,300	22,326		22,326
Sale of units		549,043	10,980		10,980
General partner contribution	59				59
Net income	6		6,050		6,056
Foreign currency translation adjustment				32	32
BALANCES, DECEMBER 31, 2010	\$ 65	2,937,631	\$ 40,900	\$ 32	\$ 40,997

The accompanying notes are an integral part of these consolidated financial statements.



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**NGL ENERGY PARTNERS LP  
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**Unaudited Condensed Consolidated Statements of Cash Flows**  
**Three Months Ended December 31, 2010, and**  
**Three Months Ended December 31, 2009, and the**  
**Six Months Ended September 30, 2010 and 2009**  
**(U.S. Dollars in Thousands)**

	<b>NGL Energy Partners LP Three Months Ended December 31, 2010</b>	<b>Three Months Ended December 31, 2009</b>	<b>NGL Supply, Inc. Six Months Ended September 30, 2010</b>	<b>Six Months Ended September 30, 2009</b>
<b>OPERATING ACTIVITIES:</b>				
Net income (loss)	\$ 6,056	\$ 4,210	\$ (2,560)	\$ (1,056)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:				
Depreciation and amortization	2,120	744	1,389	1,442
Deferred income tax provision (benefit)		2,252	(1,417)	(605)
Commodity derivative gain (loss)	(528)	(503)	(226)	40
Other		(183)	(302)	89
Changes in operating assets and liabilities, net of acquisitions				
Accounts receivable	(35,989)	(13,453)	206	(4,406)
Inventories	16,853	5,742	(59,598)	(39,239)
Product exchanges, net	(9,290)	(5,963)	18,688	13,984
Other current assets	1,828	984	(544)	(1,728)
Accounts payable	33,346	22,410	(3,741)	7,693
Accrued expenses and other payables	(256)	66	(2,693)	(3,330)
Advance payments received from customers	(13,997)	(7,027)	19,912	7,015
Net cash provided by (used in) operating activities	143	9,279	(30,886)	(20,101)
<b>INVESTING ACTIVITIES:</b>				
Purchases of property and equipment	(671)	(456)	(280)	
Cash paid for acquisitions of businesses	(17,128)	242	(121)	(2,550)
Cash flows from non-hedge commodity derivatives	559	542	426	242
Proceeds from sales of assets			24	
Collection of notes receivable			125	
Net cash provided by (used in) investing activities	(17,240)	328	174	(2,308)
<b>FINANCING ACTIVITIES:</b>				
Partner contributions	11,040			
Proceeds from borrowings under revolving line of credit	87,354		20,900	7,000
Payments on revolving line of credit	(34,489)	(7,000)		
Payments on other long-term debt	(615)	(218)	(426)	(4)
Debt issuance costs	(4,302)			
Deferred offering costs	(1,533)			
Collection of receivables from stock option exercise	1,430			
Redemption of preferred stock			(3,000)	
Preferred stock dividends		(67)	(17)	

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Distributions to stockholders of NGL Supply, Inc.	(40,000)			
Dividends on common stock			(7,000)	
Net cash provided by (used in) financing activities	18,885	(7,285)	10,457	6,996
Net increase (decrease) in cash and cash equivalents	1,788	2,322	(20,255)	(15,413)
Cash and cash equivalents, beginning of period	3,983	5,554	24,238	20,967
Cash and cash equivalents, end of period	\$ 5,771	\$ 7,876	\$ 3,983	\$ 5,554

The accompanying notes are an integral part of these consolidated financial statements.

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**Note 1 Organization and Operations**

NGL Energy Partners LP ("we" or the "Partnership") is a Delaware limited partnership formed in September 2010 to own and, through its subsidiaries, operate the propane and other natural gas liquids businesses that historically were owned and operated by NGL Supply, Inc. ("NGL Supply"), Hicks Oils and Hicksgas, Incorporated ("HOH") and Hicksgas Gifford, Inc. ("Gifford"). In October 2010, the following transactions, which we refer to as the formation transactions, occurred:

HOH formed a wholly owned subsidiary, Hicks LLC, and contributed to it all of HOH's propane and propane-related assets. The shareholders of Gifford contributed all of their shares of stock in Gifford to a newly formed holding company, Gifford Holdings, Inc.

Each of the NGL Supply Parties, the Coady Parties and the IEP Parties (each as described in the tables in "Summary Formation Transactions and Partnership Structure") made capital contributions to our general partner in exchange for membership interests in our general partner in the aggregate amounts of 36.47%, 31.00% and 32.53%, respectively.

Our general partner made a cash capital contribution of approximately \$58,800 to us in exchange for the continuation of its 0.1% general partner interest in us and incentive distribution rights and the IEP Parties made a cash capital contribution to us in the aggregate amount of approximately \$11.0 million in exchange for an aggregate 18.67% limited partner interest in us.

NGL Supply and Gifford each converted into a limited liability company and the members of NGL Supply, Hicks LLC and Gifford contributed 100% of their respective membership interests in those entities to us as capital contributions in exchange for (i) in the case of NGL Supply, a 43.27% limited partner interest in us, a cash distribution of approximately \$40.0 million and our agreement to pay or cause to be paid approximately \$27.9 million of existing indebtedness of NGL Supply, (ii) in the case of Hicks LLC, a 37.96% limited partner interest in us, a cash distribution of approximately \$1.6 million and our agreement to pay or cause to be paid approximately \$6.5 million of existing indebtedness of Hicks LLC and (iii) in the case of Gifford, a cash payment of approximately \$15.5 million.

We made a capital contribution of 100% of the membership interests of each of NGL Supply, Hicks LLC and Gifford to our wholly owned operating subsidiary, Silverthorne Operating LLC.

NGL Supply was organized on July 1, 1985 as a successor to a company founded in 1967, and is a diversified, vertically integrated provider of propane services including retail propane distribution; wholesale supply and marketing of propane and other natural gas liquids; and midstream operations which consist of propane terminal operations and services. NGL Supply was designated as the acquirer in our combination. Accordingly, the acquisition of NGL Supply was accounted for on the basis of historical cost, and our assets and liabilities were recorded at the net book values of NGL Supply.

NGL Supply began its retail propane operations during its fiscal year ended March 31, 2008 through the acquisition of retail operations in Kansas and Georgia, and expanded its retail operations through additional acquisitions during fiscal 2008 through 2010. Its retail propane operations sell propane and propane-related products and services to residential commercial and agricultural customers in Kansas and Georgia. As discussed above and in Note 3, we acquired HOH and Gifford in connection with our formation transactions. HOH and Gifford are both in the retail propane business with operations in Indiana and Illinois.





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Our wholesale supply and marketing operations provide propane supply to customers at open-access terminals throughout the common carrier pipeline systems in the Mid-Continent, Gulf Coast and Northeast regions of the United States. Our wholesale supply and marketing services include shipping and maintaining storage on these pipeline systems and supplying customers through terminals, refineries, third-party tank cars and truck terminals. Through our marketing and supply operations, we supply propane and other natural gas liquids to various refineries, multistate marketers ranging in size from national and regional distribution companies to medium and small independent propane companies located throughout the country.

In our midstream segment, we provide propane terminal services to customers through our three proprietary terminals. We established our terminalling market presence in the Mid-Continent region of the United States by acquiring Phillips Petroleum Company's East St. Louis, Illinois and Jefferson City, Missouri propane truck terminals in 2002. We expanded our terminal operations in 2003 by constructing a propane truck terminal in St. Catharines, Ontario, Canada.

**Note 2 Significant Accounting Policies**

*Basis of Presentation*

The condensed consolidated financial statements as of and for the three months ended December 31, 2010 include our accounts and all of our direct and indirect subsidiaries. All significant intercompany transactions and account balances have been eliminated in consolidation. The condensed consolidated financial statements as of March 31, 2010 and for the six months ended September 30, 2010 and 2009 and the three months ended December 31, 2009 represent the financial statements of NGL Supply.

The accompanying condensed consolidated financial statements are unaudited and have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim consolidated financial information and in accordance with the rules and regulations of the Securities and Exchange Commission ("SEC"). The consolidated financial statements include all adjustments that we consider necessary for a fair statement of the financial position and results of operations for the interim periods presented. Such adjustments consist only of normal recurring items, unless otherwise disclosed herein. Accordingly, the consolidated financial statements do not include all the information and footnotes required by GAAP for complete annual consolidated financial statements. However, we believe that the disclosures made are adequate to make the information not misleading. These interim unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements of NGL Supply for the fiscal year ended March 31, 2010, included elsewhere in this prospectus. Due to the seasonal nature of our operations, the results of operations for interim periods are not necessarily indicative of the results to be expected for a full year.

*Use of Estimates*

The preparation of consolidated financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

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*Significant Accounting Policies*

Our significant accounting policies are consistent with those disclosed in Note 2 of the Notes to Consolidated Financial Statements in the audited financial statements of NGL Supply for the year ended March 31, 2010 included elsewhere in this prospectus.

*Fair Value Information*

We apply fair value measurements to certain assets and liabilities, principally our commodity and interest rate derivative instruments and assets and liabilities acquired in a business combination. GAAP defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the measurement date. Fair value should be based upon assumptions that market participants would use when pricing an asset or liability, including assumptions about risk and risks inherent in valuation techniques and inputs to valuations. This includes not only the credit standing of counterparties and credit enhancements but also the impact of our own nonperformance risk on our liabilities. GAAP requires fair value measurements to assume that the transaction occurs in the principal market for the asset or liability or in the absence of a principal market, the most advantageous market for the asset or liability (the market for which the reporting entity would be able to maximize the amount received or minimize the amount paid). We evaluate the need for credit adjustments to our derivative instrument fair values in accordance with the requirements noted above.

We use the following fair value hierarchy, which prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

Level 1 Quoted prices (unadjusted) in active markets for identical assets and liabilities that we have the ability to access at the measurement date. We did not have any fair value measurements categorized as Level 1 at March 31, 2010 or December 31, 2010.

Level 2 Inputs other than quoted prices included within Level 1 that are either directly or indirectly observable for the asset or liability, including quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, inputs other than quoted prices that are observable for the asset or liability, and inputs that are derived from observable market data by correlation or other means. Instruments categorized in Level 2 include non-exchange traded derivatives such as over-the-counter commodity price swap and option contracts and interest rate protection agreements. All of our derivative financial instruments and our product exchange assets and liabilities were categorized as Level 2 at March 31, 2010 and December 31, 2010 (see Note 11). We determine the fair value of all our derivative financial instruments utilizing pricing models for significantly similar instruments. Inputs to the pricing models include publicly available prices and forward curves generated from a compilation of data gathered from third parties.

Level 3 Unobservable inputs for the asset or liability including situations where there is little, if any, market activity for the asset or liability. We did not have any derivative financial instruments or other assets or liabilities categorized as Level 3 at March 31, 2010 or December 31, 2010.

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The fair value hierarchy gives the highest priority to quoted prices in active markets (Level 1) and the lowest priority to unobservable data (Level 3). In some cases, the inputs to measure fair value might fall into different levels of the fair value hierarchy. The lowest level input that is significant to a fair value measurement in its entirety determines the applicable level in the fair value hierarchy. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment, considering factors specific to the asset or liability.

*Supplemental Cash Flow Information*

Supplemental cash flow information is as follows for the periods indicated:

	Three Months Ended December 31, 2010	Three Months Ended December 31, 2009	Six Months Ended September 30, 2010	Six Months Ended September 30, 2009
(in thousands)				
NON-CASH FINANCING ACTIVITIES				
Units issued in acquisition of Hicksgas (Notes 1 and 3)	\$ 22,326	\$	\$	\$
Non-compete liability related to acquisitions (Note 3)	\$	\$	\$	\$ 450
SUPPLEMENTAL CASH FLOW DISCLOSURE				
Interest paid	\$ 1,159	\$ 217	\$ 335	\$ 128
Income taxes paid	\$	\$ 304	\$ 220	\$ 220

Cash flows from commodity derivative instruments that are not accounted for as hedges are classified as cash flows from investing activities in the consolidated statements of cash flows.

*Account Details*

Inventories consist of the following at the indicated dates:

	<b>December 31, 2010</b>	<b>March 31, 2010</b>
	(in thousands)	
Propane	\$ 53,370	\$ 6,826
Parts and supplies	2,870	457
Other	413	
	\$ 56,653	\$ 7,283

*Recent Accounting Developments*

In November 2008, the SEC released a proposed roadmap regarding the potential use by U.S. issuers of financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"). IFRS represent accounting standards published by the International Accounting Standards

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Board (the "IASB"), which is based in London, England. In February 2010, the SEC expressed its continuing support for a single set of high-quality globally accepted accounting standards and established a general work plan that sets forth areas and factors the SEC will consider before requiring domestic public companies to transition to IFRS. Currently, the Financial Accounting Standards Board (the "FASB") and the IASB are working individually and jointly on a number of accounting standard convergence projects that, if finalized in 2011, would bring about a significant shift in the accounting and financial reporting landscape. These projects include a broad range of topics such as financial statement presentation, accounting for leases, revenue recognition, financial instruments, consolidations and fair value measurements.

The SEC expects to make a determination in 2011 regarding the mandatory adoption of IFRS, with the expectation that any decision to adopt IFRS will allow U.S. issuers a number of years to transition from current GAAP. We continue to monitor developments regarding the potential implementation of IFRS and the ongoing convergence projects of the FASB and IASB. We will evaluate the impact that any definitive accounting guidance may have on our financial statements once this information is finalized by the appropriate standard setting organizations, including the SEC.

**Note 3 Acquisitions**

*Six Months Ended September 30, 2009*

On August 4, 2009, NGL Supply acquired substantially all of the assets of Reliance Energy Partners, L.L.C., a company operating in the retail propane business. The aggregate purchase price for this acquisition totaled approximately \$2.8 million, which included liabilities assumed and non-compete agreements of approximately \$450,000 payable to the previous owners over three years. Results of operations for this acquired business are included in our consolidated statement of operations beginning August 4, 2009.

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*Three Months Ended December 31, 2010*

As discussed in Note 1, we purchased the retail propane operations of HOH and Gifford in October 2010 as part of our formation transactions. The following table presents the preliminary allocation of the acquisition cost to the assets acquired and liabilities assumed, based on their estimated fair values, in the acquisition of the retail propane businesses of HOH and Gifford described above:

	In Thousands
Accounts receivable	\$ 6,298
Inventory	6,625
Prepaid and other current assets	2,604
	15,527
Property, plant, and equipment:	
Tanks and other equipment (15 year life)	22,213
Vehicles (5 year life)	6,173
Buildings (30 year life)	6,241
Other (15 year life)	1,264
Intangible assets:	
Customer relationships (15 year life)	3,278
Non-compete agreements (5 year life)	868
Goodwill (Retail propane segment)	7,322
 Total assets acquired	 62,886
Accounts payable	2,777
Customer advances and deposits	12,063
Accrued and other current liabilities	2,307
	17,147
Long-term debt	5,768
Long-term derivatives	517
 Total liabilities assumed	 23,432
 Net assets acquired	 \$ 39,454

Goodwill was warranted because these acquisitions enhance our current retail propane operations. We expect all of the goodwill acquired to be tax deductible. We do not believe that the acquired intangible assets have any significant residual value at the end of their useful life.

The total acquisition cost was \$39.5 million, consisting of cash of approximately \$17.1 million and the issuance of 1,116,300 common units. The total acquisition cost for the acquisitions of HOH and Gifford has been initially allocated based on the estimated fair value of the assets acquired and liabilities assumed. The units issued to the shareholders of HOH in the formation transaction were valued at \$20 per unit, the price paid by the IEP Parties for the common units they acquired. The allocations have not been completed and are subject to change. We expect to complete the allocations during the first quarter of fiscal 2011 upon the completion of an independent appraisal of the fair value of the assets acquired. We expect this appraisal to be complete in May, 2011.

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The operations of HOH and Gifford have been included in our statements of operations since acquisition in October 2010. For convenience, and because the impact was not significant, we have accounted for the acquisition as if it occurred on October 1, 2010. The results of operations for HOH and Gifford during the three months ended December 31, 2010 were as follows (in thousands except per unit data):

Revenues	\$ 24,121
Net income	1,752
Limited partners earnings per common unit	0.60

***Pro Forma Results of Operations***

The following unaudited pro forma consolidated results of operations for the three months ended December 31, 2010 and 2009, and the six months ended September 30, 2010 and 2009 are presented as if the combination transactions and the HOH and Gifford acquisitions had been made on April 1, 2009. The pro forma earnings per unit are based on the common units outstanding as of December 31, 2010.

	<b>Three Months Ended December 31, 2010</b>	<b>Three Months Ended December 31, 2009</b>	<b>Six Months Ended September 30, 2010</b>	<b>Six Months Ended September 30, 2009</b>
	(in thousands except per unit data)			
Revenues	\$ 311,137	\$ 290,950	\$ 336,921	\$ 224,016
Net income (loss)	6,056	14,905	(8,558)	(5,600)
Limited partners' interest in net income (loss)	6,050	14,890	(8,549)	(5,595)
Basic earnings (loss) per Limited Partner Unit	2.06	5.07	(2.91)	(1.90)
Diluted earnings (loss) per Limited Partner Unit	2.06	5.07	(2.91)	(1.90)

The pro forma consolidated results of operations include adjustments to give effect to depreciation on the step-up of property, plant and equipment, amortization of customer relationships, interest expense on acquisition debt, and certain other adjustments. The pro forma information is not necessarily indicative of the results of operations that would have occurred had the transactions been made at the beginning of the periods presented or the future results of the combined operations.

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**Note 4 Earnings per Share or Common Unit**

Our earnings per limited partner common unit or per share of common stock for the periods indicated below were computed as follows:

	Three Months Ended December 31, 2010	Three Months Ended December 31, 2009	Six Months Ended September 30, 2010	Six Months Ended September 30, 2009
(dollar amounts in thousands, except per share amounts)				
Earnings per Limited Partner Unit or Common Stock:				
Net income (loss) to the parent equity	\$ 6,056	\$ 4,214	\$ (2,515)	\$ (1,049)
Less preferred stock dividends		33	17	34
Less earnings allocable to general partner	6			
Net income (loss) allocable to limited partners or common shareholders	\$ 6,050	\$ 4,181	\$ (2,532)	\$ (1,083)
Weighted average limited partner units or common shares outstanding Basic	2,937,631	19,603	19,711	19,603
Earnings per limited partner unit or common share Basic	\$ 2.06	\$ 213.28	\$ (128.45)	\$ (55.25)
Weighted average limited partner units or common shares outstanding Diluted	2,937,631	19,840	19,711	19,603
Earnings per limited partner unit or common share Diluted	\$ 2.06	\$ 210.74	\$ (128.45)	\$ (55.25)

In the computation of earnings per common share of NGL Supply for the six months ended September 30, 2010 and 2009, the impact of the outstanding stock options prior to exercise (approximately 237 shares) has not been included in the diluted earnings per share computation because the effect would be anti-dilutive.

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**Note 5 Property, Plant and Equipment**

Our property, plant and equipment, net of depreciation, consists of the following as of the dates indicated:

Description and Useful Life	December 31, 2010	March 31, 2010
	(in thousands)	
Terminal assets (30 years)	\$ 18,862	\$ 23,246
Retail propane tanks and equipment (5-15 years)	29,283	8,325
Vehicles (5 years)	7,172	1,672
Information technology equipment (3 years)	648	1,845
Buildings (30 years)	6,241	
Other (3-7 years)	2,018	1,249
	64,224	36,337
Less: Accumulated depreciation	1,255	7,652
Net property, plant and equipment	\$ 62,969	\$ 28,685

**Note 6 Goodwill and Intangible Assets**

The changes in the balance of goodwill were as follows during the periods indicated:

	Three Months Ended December 31, 2010	Six Months Ended September 30, 2010
	(in thousands)	
Balance, beginning of period	\$ 4,580	\$ 4,457
Additional consideration paid prior period acquisitions (retail propane segment)		123
Acquisition of HOH and Gifford (retail propane segment)	7,322	
Balance, end of period	\$ 11,902	\$ 4,580

Our intangible assets consist of the following as of the dates indicated:

Useful Lives	December 31, 2010		March 31, 2010	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
	(in thousands)			
Supply and storage agreements	8 years	\$ 1,802	\$ 200	\$ 7,105
Customer lists	8-10 years	2,031	76	2,956
Customer relationships	15 years	3,278	99	
Debt issuance costs	4 years	4,302	224	
Non-compete agreements	2-6 years	1,869	120	2,253
				1,013



\$ 13,282 \$ 719 \$ 12,314 \$ 6,686

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Expected amortization of our intangible assets is as follows (in thousands):

<b>Year Ending March 31,</b>	
2011 (three months)	\$ 764
2012	3,046
2013	2,652
2014	1,800
2015	1,285
Thereafter	3,016
	<b>\$ 12,563</b>

Amortization expense for the periods indicated below was as follows:

Recorded In	Three Months Ended December 31, 2010	Three Months Ended December 31, 2009	Six Months Ended September 30, 2010	Six Months Ended September 30, 2009
	(in thousands)			
Depreciation and amortization	\$ 295	\$ 201	\$ 391	\$ 399
Interest expense	224			
Cost of sales	200	200	400	400
	\$ 719	\$ 401	\$ 791	\$ 799

**Note 7 Long-Term Debt**

Our long-term debt as of December 31, 2010 consists of the following (in thousands):

Revolving credit facility	
Acquisition loans	\$ 68,000
Working capital loans	18,500
Other notes payable	1,372
	<b>87,872</b>
Less current maturities	19,255
<b>Long-term debt</b>	<b>\$ 68,617</b>

On October 14, 2010, we and our subsidiaries executed a \$200.0 million credit agreement, as amended through April 2011, (the "Credit Agreement") with a group of banks. The Credit Agreement provides for a total credit facility of \$200.0 million, represented by a \$50.0 million working capital facility and a \$150.0 million acquisition facility. Borrowings under the working capital facility are subject to a defined borrowing base. The working capital facility allows for letter of credit advances of up to \$50.0 million and swingline loans of up to \$5.0 million.

The Credit Agreement has a final maturity on October 14, 2014. Once a year, between March 31 and September 30, we must prepay the outstanding working capital revolving loans and collateralize outstanding letters of credit in order to reduce the total working capital borrowings to less than



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\$10.0 million for 30 consecutive days. In addition, until we complete an equity offering, on or before October 14 each year, we must repay outstanding principal amounts of the acquisition revolving loans by at least \$7.5 million.

Borrowings under the Credit Agreement bear interest at designated interest rates depending on the computed "leverage ratio," which is the ratio of total indebtedness (as defined) at any determination date to consolidated EBITDA for the period of the four fiscal quarters most recently ended. Interest is payable quarterly. The initial interest rates vary at LIBOR plus 3%-3.75% for any LIBOR borrowings or the bank's prime rate plus 2% to 2.75% for any base rate borrowings, in each case depending upon the leverage ratio. The scheduled interest rate increments will be adjusted upward by 0.25% in the event the Partnership has not completed a public or private equity offering of at least \$50.0 million by April 14, 2011.

Substantially all of our assets are pledged as collateral under the Credit Agreement.

Our revolving credit facility contains various covenants limiting our ability to (subject to certain exceptions), among other things:

incur other indebtedness (other than permitted debt as defined in the credit facility);

grant or incur liens on our property;

create or incur any contingent obligations;

make investments, loans and acquisitions;

enter into a merger, consolidation or sale of assets;

change the nature of our business or change the name or place of our business;

pay dividends or make distributions if we are in default under the revolving credit facility or in excess of available cash; and

prepay, redeem, defease or otherwise acquire any permitted subordinated debt or make certain amendments to permitted subordinated debt.

Our revolving credit facility further indicates that our "leverage ratio" cannot exceed 4.25 to 1.0 at any quarter end. This limit will vary based on whether we complete a public or private equity offering. At December 31, 2010, our ratio of total funded debt to consolidated EBITDA was 3.15 to 1.0.

Our revolving credit facility includes customary events of default. At December 31, 2010, we were in compliance with all debt covenants to our revolving credit facility.

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The other notes payable of approximately \$1.4 million mature as follows:

<b>Year Ending March 31,</b>	<b>In Thousands</b>
2011 (3 months)	\$
2012	830
2013	452
2014	90
	\$ 1,372

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During the three months ended December 31, 2010, we had a maximum borrowing of approximately \$22.0 million and an average borrowing of \$16.9 million under our working capital facility. Our weighted average interest rate during the three months ended December 31, 2010 was 5.46%, and the interest rate at December 31, 2010 on such borrowings was 5.75%.

**Note 8 Income Taxes**

The tax provision of NGL Supply for the six month periods ended September 30, 2010 and 2009, and the three month period ended December 31, 2009 was computed using the expected annual effective tax rate which differs from the statutory rate due to the effect of state income taxes.

We expect to qualify as a partnership for income taxes. As such, we will not pay any U.S. Federal income tax. Rather, each owner will report their share of our income or loss on their individual tax returns. Accordingly, no income tax provision has been recorded for the three months ended December 31, 2010.

The components of the income tax provision of NGL Supply are as follows for the indicated periods:

	<b>Three Months Ended December 31, 2009</b>	<b>Six Months Ended September 30, 2010</b>	<b>Six Months Ended September 30, 2009</b>
	(in thousands)		
Current expense:			
Federal	\$ 70	\$	\$
State	157		
Total	227		
Deferred expense (benefit):			
Federal	2,079	(1,417)	(605)
State	173		
Total	2,252	(1,417)	(605)
Total income tax expense (benefit)	\$ 2,479	\$ (1,417)	\$ (605)
Effective tax rate	37.0%	35.6%	36.4%

**Note 9 Commitments and Contingencies***Litigation*

We are involved in claims and legal actions arising in the ordinary course of business. We believe that the ultimate disposition of these matters will not have a material adverse effect on our financial position and results of operations.

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*Obligations Under Propane Asset Purchase and Sale Agreement*

In connection with the purchase of certain propane assets from ConocoPhillips, NGL Supply executed the following agreements in November 2002:

*Propane Business Operating & Maintenance Agreement.* The Propane Business Operating & Maintenance Agreement specifies that ConocoPhillips will continue to operate the propane assets for us and provides for the payment for such services as well as the payment for the utilization of certain common facilities, as defined. The agreement has a primary term of ten years from November 7, 2002, and provides for an extension for a five-year period, to be continued on a year-by-year basis. We have the ability to terminate the agreement with written notice by August 1 of the calendar year preceding the year we would terminate the agreement.

We are obligated to pay a fixed monthly operating fee plus a utility service fee which varies based on usage and all direct costs incurred by ConocoPhillips related to the propane assets. The initial monthly operating fee was \$25,000, which consisted of a labor charge of \$15,000 plus a non-labor charge of \$10,000. During the ten-year primary term, the labor charge component increases at a rate of 2.5% per year, and during the five-year extension, the labor charge component is increased at an amount appropriate in the circumstances based on ConocoPhillips' actual labor and benefit costs. The non-labor component was fixed for a term of two years, but thereafter was to be adjusted for every two-year period based on ConocoPhillips' actual costs of operating our propane assets. The total operating fee charged to cost of sales on the consolidated statements of operations, including the charge for the utility service fee and propane asset direct charges, was as follows for the periods indicated (in thousands):

Three months ended December 31, 2010	\$ 89
Three months ended December 31, 2009	89
Six months ended September 30, 2010	175
Six months ended September 30, 2009	171

The total minimum monthly fee as of December 31, 2010 is approximately \$30,000. During the remaining term of the primary ten-year period and the five-year extension, the estimated minimum annual commitments for the Propane Business Operating & Maintenance Agreement for the remainder of the year ending March 2011 and the years ending March 31, 2012 through March 31, 2015 are as follows (in thousands):

<b>Year Ending March 31,</b>	
2011 (three months)	\$ 132
2012	368
2013	368
2014	368
2015	368

*Propane Supply Agreement.* This agreement was executed effective November 7, 2002, in order to provide us with a constant supply of propane for our business. The agreement is for a primary term of ten years, and may be extended for an additional five-year period, then continuing on a year-by-year basis.

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The agreement specifies that we will purchase a specified volume of propane per week from ConocoPhillips. The price we will pay is an average of the published daily propane spot price at Conway, Kansas plus a location differential equal to published pipeline tariffs and, for the ten-year primary period, less a specified discount which varies depending upon the location of purchase. The charge for such propane purchases is included in cost of sales on our consolidated statements of operations.

*Storage Space Lease.* Effective November 7, 2002, NGL Supply executed a propane storage space lease with ConocoPhillips for storage at its Borger, Texas storage facility. The storage agreement provides for a level of up to 850,000 barrels, or 36 million gallons, of propane at any one time, and expires on March 31, 2012.

The storage agreement requires a specified minimum storage payment which varies by year, plus additional charges to the extent we had more than the designated 850,000 barrels, or 36 million gallons, in storage at any time. The total lease charge recorded in cost of sales on our consolidated statements of operations was as follows for the indicated periods (in thousands):

Three months ended December 31, 2010	\$ 108
Three months ended December 31, 2009	102
Six months ended September 30, 2010	217
Six months ended September 30, 2009	204

As of December 31, 2010, the monthly storage charge is approximately \$36,000. The estimated future annual storage charge will be as follows (in thousands):

<b>Year Ending March 31,</b>	
2011 (three months)	\$ 108
2012	433

*Other Operating Leases.* We have executed various noncancelable operating lease agreements for office space, trucks, real estate, equipment and bulk propane storage tanks. Future minimum lease payments at December 31, 2010, are as follows (in thousands):

<b>Year Ending March 31,</b>	
2011 (three months)	\$ 168
2012	654
2013	654
2014	597
	\$ 2,073

Rental expense relating to operating leases was as follows for the periods indicated (in thousands):

Three months ended December 31, 2010	\$ 357
Three months ended December 31, 2009	78
Six months ended September 30, 2010	260
Six months ended September 30, 2009	252
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*Sales and Purchase Contracts*

We have entered into sales and purchase contracts for propane and other natural gas liquids to be delivered in future periods. These contracts require that the parties physically settle the transactions with natural gas liquid inventory. At December 31, 2010, we had outstanding sales contracts of approximately \$92.1 million and outstanding purchase contracts of approximately \$55.6 million. These contracts have terms that expire at various dates through December 2011.

**Note 10 Equity**

*Partnership Equity*

The Partnership's equity consists of a 0.1% general partner equity and a 99.9% limited partner equity. Limited partner equity consists of common and subordinated common units. The limited partner units share equally in the allocation of income or loss. The principal difference between common and subordinated common units is that in any quarter during the subordination period, holders of the subordinated units are not entitled to receive any distribution until the common units have received the minimum quarterly distribution plus any arrearages in the payment of the minimum quarterly distribution from prior quarters. Subordinated units will not accrue arrearages.

When the subordination period ends, all subordinated units will convert into common units on a one-for-one basis and all common units thereafter will no longer be entitled to arrearages.

Our general partner is not obligated to make any additional capital contributions or guarantee any of our debts or obligations.

*Distributions*

Upon completion of the Partnership's initial public offering, the general partner is expected to adopt a cash distribution policy that will require the Partnership to pay a quarterly distribution to the extent it has sufficient cash from operations after establishment of cash reserves and payment of fees and expenses, including payments to the general partner and its affiliates, referred to as "available cash," in the following manner:

First, 99.9% to the holders of common units and 0.1% to the general partner, until each common unit has received the specified minimum quarterly distribution, plus any arrearages from prior quarters.

Second, 99.9% to the holders of subordinated units and 0.1% to the general partner, until each subordinated unit has received the specified minimum quarterly distribution.

Third, 99.9% to all unitholders, pro rata, and 0.1% to the general partner.

The general partner will also receive, in addition to distributions on its 0.1% general partner interest, additional distributions based on the level of distributions to the limited partners. These distributions are referred to as "incentive distributions."

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*Equity of NGL Supply*

The changes in net equity of NGL Supply from the period of September 30, 2010 to October 14, 2010 are as follows:

	In Thousands
Net equity at September 30, 2010	\$ 36,811
Collection of stock option receivable	1,430
Assumption of net tax obligations by previous shareholders	3,412
Distribution to previous shareholders	(40,000)
Other	(109)
Net equity contributed by NGL Supply	\$ 1,544

**Note 11 Fair Value of Financial Instruments**

Our cash and cash equivalents, accounts receivable, accounts payable and accrued expenses and other current liabilities (excluding derivative instruments) are carried at amounts which reasonably approximate their fair value due to their short-term nature. The carrying amounts of our variable-rate debt obligations reasonably approximate their fair value due to their variable interest rates on substantially all of the debt and there have been no changes in conditions from the inception of the credit facility indicating that our credit terms were not market terms.

The following table presents the estimated fair value measurements of our assets and liabilities carried at fair value in our consolidated financial statements at the dates indicated:

Item	Recorded As	December 31, 2010		March 31, 2010	
		Level 1	Level 2	Level 1	Level 2
(in thousands)					
Assets:					
Commodity derivatives	Prepaid Expenses	\$	\$	\$	\$ 576
Product exchanges	Product Exchanges		221		2,746
Liabilities:					
Product exchanges	Product Exchanges		7,878		1,005
Interest rate derivatives	Accrued Liabilities		404		
Commodity derivatives	Accrued Liabilities		20		

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The following table sets forth our open commodity derivative contract positions at December 31, 2010 and March 31, 2010:

Underlying	Period	Total Notional Units	Type	Price (\$/unit)
As of December 31, 2010				
Natural Gas Liquids				
Propane:				
OPIS Conway	Apr 2011	25,000 BBL	Swap	1.1050
OPIS Conway	Apr June 2011	30,000 BBL	Swap	1.1250
OPIS Conway	Oct 2011	90,000 BBL	Swap	1.1350
OPIS Conway	Dec 2011	4,000 BBL	Swap	0.9800
OPIS Conway	Jan Mar 2011	3,000 BBL	Swap	1.1550
OPIS Conway	Jan Mar 2011	3,000 BBL	Put	0.9250
OPIS Conway	Jan Mar 2011	3,000 BBL	Call	1.2125
As of March 31, 2010				
Natural Gas Liquids				
Propane:				
OPIS Mt. Belvieu	Apr June 2010	75,000 BBL	Swap	1.2650
OPIS Conway	Apr June 2010	60,000 BBL	Swap	1.0950
OPIS Conway	Apr June 2010	45,000 BBL	Swap	1.1600
OPIS Conway	Apr June 2010	60,000 BBL	Swap	1.1400
OPIS Conway	July Sept 2010	30,000 BBL	Swap	1.2100
OPIS Mt. Belvieu	July Sept 2010	45,000 BBL	Swap	1.2000
OPIS Mt. Belvieu	Oct Dec 2010	75,000 BBL	Swap	1.2975
Watkins Glen TEP	Apr 2010	26,619 Gal	Physical Cap	1.2144
Watkins Glen TEP	Apr May 2010	40,000 Gal	Physical Cap	1.2294

We have entered into two interest rate swap agreements to hedge the risk of interest rate fluctuations on our long term debt. These agreements convert a portion of our revolving credit facility floating rate debt into fixed rate debt on notional amounts of \$4.0 million and \$8.5 million and end on March 14, 2011 and June 30, 2013, respectively. The notional amounts of derivative instruments do not represent actual amounts exchanged between the parties, but instead represent amounts on which the contracts are based. The floating interest rate payments under these swaps are based on three-month LIBOR rates. We do not account for these agreements as hedges.

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We recorded the following net gains (losses) from our commodity and interest rate derivatives during the periods indicated:

	<b>Three Months Ended December 31, 2010</b>	<b>Three Months Ended December 31, 2009</b>	<b>Six Months Ended September 30, 2010</b>	<b>Six Months Ended September 30, 2009</b>
	(in thousands)			
Commodity contracts				
Unrealized loss	\$ (31)	\$ (39)	\$ (200)	\$ (282)
Realized gain	559	542	426	242
Interest rate swaps	69			
Total	\$ 597	\$ 503	\$ 226	\$ (40)

The commodity contract gains and losses are included in cost of sales of our wholesale supply and marketing segment in the consolidated statements of operations. The gain or loss on the interest rate contracts is recorded in interest expense.

**Note 12 Segments**

We have three operating segments, two of which conduct their business exclusively in the United States, while our midstream terminal operations are conducted in the United States and Canada. We evaluate our operating segments' performance based on gross margin and operating income and EBITDA. Our segments and their respective financial information are as follows:

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	Three Months Ended December 31, 2010	Three Months Ended December 31, 2009	Six Months Ended September 30, 2010	Six Months Ended September 30, 2009
(in thousands)				
<b>Revenues:</b>				
Retail propane				
Propane sales	\$ 27,810	\$ 7,511	\$ 6,128	\$ 5,751
Sales of parts and fittings and water-softeners	2,348	294	256	168
Propane service and water-softener and tank rental revenues	1,504	440	484	458
Wholesale supply and marketing				
Wholesale supply sales	285,508	234,432	315,364	195,666
Storage revenues	722	791	959	1,187
Midstream	1,212	1,517	1,046	1,106
Eliminations of intersegment wholesale supply sales	(7,967)	(7,488)	(7,294)	(6,009)
<b>Total revenues</b>	<b>\$ 311,137</b>	<b>\$ 237,497</b>	<b>\$ 316,943</b>	<b>\$ 198,327</b>
<b>Gross Margin:</b>				
Retail propane				
Propane sales	\$ 9,096	\$ 2,683	\$ 1,638	\$ 2,338
Sales of parts and fittings and water-softeners	365	48	(3)	102
Propane service and water-softener and tank rental revenues	1,504	440	484	458
Wholesale supply and marketing				
Wholesale supply sales	6,919	6,039	2,105	1,257
Storage revenues	722	791	959	1,187
Midstream	1,058	1,392	852	914
<b>Total gross margin</b>	<b>\$ 19,664</b>	<b>\$ 11,393</b>	<b>\$ 6,035</b>	<b>\$ 6,256</b>
<b>Depreciation and Amortization:</b>				
Retail propane	\$ 1,435	\$ 448	\$ 870	\$ 856
Wholesale supply and marketing	50	86	98	171
Midstream	211	210	421	415
<b>Total depreciation and amortization</b>	<b>\$ 1,696</b>	<b>\$ 744</b>	<b>\$ 1,389</b>	<b>\$ 1,442</b>
<b>Operating Income (Loss):</b>				
Retail propane	\$ 1,517	\$ 408	\$ (2,569)	\$ (1,496)
Wholesale supply and marketing	6,443	5,757	567	361
Midstream	794	1,136	298	492
General and administrative expenses not allocated to segments	(1,533)	(448)	(2,091)	(885)
<b>Total operating income (loss)</b>	<b>\$ 7,221</b>	<b>\$ 6,853</b>	<b>\$ (3,795)</b>	<b>\$ (1,528)</b>
<b>Other items not allocated by segment:</b>				
Interest income	93	23	66	56
Interest expense	(1,314)	(190)	(372)	(220)
Other income, net	56	3	124	31
<b>Income tax (expense) benefit</b>		<b>(2,479)</b>	<b>1,417</b>	<b>605</b>

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Net income (loss)	\$	6,056	\$	4,210	\$	(2,560)	\$	(1,056)
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## Geographic Information for our Midstream Segment:

Revenues:								
United States	\$	1,137	\$	1,443	\$	975	\$	1,045
Canada		75		74		71		61
Gross margin:								
United States		983		1,318		782		853
Canada		75		74		70		61
Operating income (loss):								
United States		799		1,137		423		495
Canada		(5)		(1)		(125)		(3)
Additions to property, plant and equipment including acquisitions (accrual basis):								
Retail propane	\$	36,557	\$	652	\$	386	\$	2,100
Wholesale supply and marketing		5		12		15		
Total								
	\$	36,562	\$	664	\$	401	\$	2,100

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**NGL ENERGY PARTNERS LP  
AND NGL SUPPLY, INC.**  
**Notes to Unaudited Condensed Consolidated Financial Statements (Continued)**  
**As of December 31, 2010 and March 31, 2010, and for the**  
**Three Months Ended December 31, 2010 and December 31, 2009, and the**  
**Six Months Ended September 30, 2010 and 2009**

	December 31, 2010	March 31, 2010
	(in thousands)	
<b>Total assets:</b>		
Retail propane	\$ 80,698	\$ 19,847
Wholesale supply and marketing	126,590	66,942
Midstream	18,794	20,491
Corporate	7,321	4,300
 Total	 \$ 233,403	 \$ 111,580
 <b>Long-lived assets:</b>		
Retail propane	\$ 60,200	\$ 14,292
Wholesale supply and marketing	4,541	3,234
Midstream	18,614	19,210
Corporate	4,079	2,034
 Total	 \$ 87,434	 \$ 38,770

**Note 13 Subsequent Event**

On May 6, 2011, we plan to make a distribution of \$3.85 million (approximately \$1.30 per pre-split unit) to our current unit holders for taxable income allocated to such holders.

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**Report of Independent Registered Public Accounting Firm**

Board of Directors and Unit Holders  
NGL Energy Partners LP  
Tulsa, Oklahoma

We have audited the accompanying consolidated balance sheets of NGL Supply, Inc. and Subsidiaries as March 31, 2010 and 2009 and the related consolidated statements of operations, changes in equity, and cash flows for each of the three years in the period ended March 31, 2010. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements and schedules. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of NGL Supply, Inc. and Subsidiaries as of March 31, 2010 and 2009 and the related consolidated statements of operations, changes in equity, and cash flows for each of the three years in the period ended March 31, 2010, in conformity with accounting principles generally accepted in the United States of America.

/s/ BDO USA, LLP

BDO USA, LLP

Dallas, Texas  
February 11, 2011



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**NGL SUPPLY, INC. AND SUBSIDIARIES**  
**Consolidated Balance Sheets**  
**March 31, 2010 and 2009**  
**(U.S. Dollars in Thousands, except per share amounts)**

	2010	2009
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 24,238	\$ 20,967
Accounts receivable, net of allowance for doubtful accounts of \$235 and \$403, respectively	37,183	26,692
Inventories	7,283	15,290
Product exchanges	2,746	1,202
Deferred tax assets	215	337
Notes receivable	125	125
Other current assets	995	437
Total current assets	72,785	65,050
PROPERTY, PLANT AND EQUIPMENT, net of accumulated depreciation of \$7,652 and \$5,600, respectively	28,685	27,795
GOODWILL	4,457	3,755
INTANGIBLE ASSETS, net of accumulated amortization of \$6,686 and \$5,091, respectively	5,628	6,773
PARENT COMPANY TAX RECEIVABLE	25	61
Total assets	\$ 111,580	\$ 103,434
<b>LIABILITIES AND EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Trade accounts payable	\$ 35,373	\$ 31,011
Accrued expenses and other payables	4,745	4,255
Product exchanges	1,005	282
Advance payments received from customers	6,229	8,918
Current maturities of long-term debt	752	775
Total current liabilities	48,104	45,241
LONG-TERM DEBT, net of current maturities	8,348	8,577
NON-CURRENT DEFERRED TAX LIABILITY	5,222	3,257
OTHER NON-CURRENT LIABILITIES	503	668
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>REDEEMABLE PREFERRED STOCK;</b>		
1,000 shares authorized and outstanding; \$10 par value	3,000	3,000
<b>EQUITY, per accompanying statements:</b>		
Common stock Class A, with full voting rights, \$10 par value 100,000 shares authorized; 19,603 shares issued and outstanding	196	196
Additional paid-in capital	36,039	36,039
Retained earnings	9,859	6,355
	84	(66)

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Accumulated other comprehensive income (loss) Foreign currency translation		
Total NGL Supply, Inc. equity	46,178	42,524
Noncontrolling interest	225	167
Total equity	46,403	42,691
Total liabilities and equity	\$ 111,580	\$ 103,434

The accompanying notes are an integral part of these consolidated financial statements.

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**NGL SUPPLY, INC. AND SUBSIDIARIES**  
**Consolidated Statements of Operations**  
**For the Years Ended March 31, 2010, 2009 and 2008**  
**(U.S. Dollars in Thousands, except per share amounts)**

	2010	2009	2008
<b>REVENUES:</b>			
Retail propane operations	\$ 26,967	\$ 30,248	\$ 18,039
Wholesale supply and marketing	704,436	701,484	813,163
Midstream	4,103	3,259	3,055
<b>Total Revenues</b>	<b>735,506</b>	<b>734,991</b>	<b>834,257</b>
<b>COST OF SALES:</b>			
Retail propane operations	15,603	21,612	12,970
Wholesale supply and marketing	692,145	684,383	804,654
Midstream	467	423	397
	708,215	706,418	818,021
<b>Gross Margin</b>	<b>27,291</b>	<b>28,573</b>	<b>16,236</b>
<b>OPERATING COSTS AND EXPENSES:</b>			
Operating	11,523	11,075	7,608
General and administrative	6,326	5,577	3,762
Depreciation and amortization	2,781	2,490	1,704
<b>Operating Income</b>	<b>6,661</b>	<b>9,431</b>	<b>3,162</b>
<b>OTHER INCOME (EXPENSE):</b>			
Interest income	120	162	361
Interest expense	(668)	(1,621)	(1,061)
Other, net	(5)	152	70
<b>Income before income taxes</b>	<b>6,108</b>	<b>8,124</b>	<b>2,532</b>
<b>INCOME TAX PROVISION</b>	<b>2,478</b>	<b>3,255</b>	<b>948</b>
<b>Net income</b>	<b>3,630</b>	<b>4,869</b>	<b>1,584</b>
<b>NET LOSS ATTRIBUTABLE TO NONCONTROLLING INTEREST</b>	<b>6</b>	<b>80</b>	<b>29</b>
<b>NET INCOME ATTRIBUTABLE TO NGL SUPPLY, INC.</b>	<b>\$ 3,636</b>	<b>\$ 4,949</b>	<b>\$ 1,613</b>
<b>BASIC NET INCOME PER SHARE</b>	<b>\$ 178.75</b>	<b>\$ 242.82</b>	<b>\$ 69.17</b>
<b>BASIC WEIGHTED AVERAGE COMMON SHARES OUTSTANDING</b>	<b>19,603</b>	<b>19,603</b>	<b>19,603</b>
<b>DILUTED NET INCOME PER SHARE</b>	<b>\$ 176.61</b>	<b>\$ 239.92</b>	<b>\$ 68.35</b>
<b>DILUTED WEIGHTED AVERAGE COMMON SHARES OUTSTANDING</b>	<b>19,840</b>	<b>19,840</b>	<b>19,840</b>

The accompanying notes are an integral part of these consolidated financial statements.

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**NGL SUPPLY, INC. AND SUBSIDIARIES**  
**Consolidated Statements of Changes in Equity**  
**For the Years Ended March 31, 2010, 2009 and 2008**  
**(U.S. Dollars in Thousands)**

	Class A Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income		Noncontrolling Interest	Total Equity
	Shares	Amount			(Loss)			
BALANCES, MARCH 31, 2007	19,603	\$ 196	\$ 35,748	\$ 239	\$ 18	\$	276	\$ 36,477
COMPREHENSIVE INCOME:								
Net income (loss)				1,613			(29)	1,584
Foreign currency translation adjustment					135			135
Total comprehensive income								1,719
Preferred stock dividends				(257)				(257)
Share-based compensation			194					194
BALANCES, MARCH 31, 2008	19,603	196	35,942	1,595	153		247	38,133
COMPREHENSIVE INCOME:								
Net income (loss)				4,949			(80)	4,869
Foreign currency translation adjustment					(219)			(219)
Total comprehensive income								4,650
Preferred stock dividends				(189)				(189)
Share-based compensation			97					97
BALANCES, MARCH 31, 2009	19,603	196	36,039	6,355	(66)		167	42,691
COMPREHENSIVE INCOME:								
Net income (loss)				3,636			(6)	3,630
Foreign currency translation adjustment					150		64	214
Total comprehensive income								3,844
Preferred stock dividends				(132)				(132)
BALANCES, MARCH 31, 2010	19,603	\$ 196	\$ 36,039	\$ 9,859	\$ 84	\$	225	\$ 46,403

The accompanying notes are an integral part of these consolidated financial statements.

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**NGL SUPPLY, INC. AND SUBSIDIARIES**  
**Consolidated Statements of Cash Flows**  
**For the Years Ended March 31, 2010, 2009 and 2008**  
**(U.S. Dollars in Thousands)**

	2010	2009	2008
<b>OPERATING ACTIVITIES:</b>			
Net income	\$ 3,630	\$ 4,869	\$ 1,584
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation	2,157	1,828	1,384
Amortization	1,595	1,462	1,114
Lower of cost or market adjustment on inventory	321	5,351	
Loss (gain) on sale of assets	11	150	(1)
Provision for doubtful accounts	82	343	40
Amortization of debt issuance costs	87	237	31
Deferred rental income			50
Foreign currency transaction (gain) loss	216	(217)	(75)
Deferred income tax provision	2,087	3,066	845
Deferred income tax benefit applied to reduce goodwill	103	103	103
Share-based compensation charges		97	194
Gain on derivative financial instruments	(1,253)	(691)	(429)
Changes in operating assets and liabilities, net of acquisitions			
Accounts receivable	(10,613)	15,141	(3,820)
Inventories	8,040	(188)	(9,688)
Product exchanges, net	(824)	(4,046)	(1,398)
Other current assets	150	577	(42)
Accounts payable	4,347	(11,852)	2,032
Accrued expenses and other payables	444	1,988	90
Advance payments received from customers	(2,935)	4,251	(2,945)
Other non-current liabilities	(165)	(10)	
Net cash provided by (used in) operating activities	7,480	22,459	(10,931)
<b>INVESTING ACTIVITIES:</b>			
Purchases of property and equipment	(582)	(577)	(496)
Acquisitions of businesses, including additional consideration paid on prior period acquisitions	(3,113)	(3,532)	(6,237)
Cash flows on non-hedge commodity derivative financial instruments	690	708	465
Proceeds from sales of assets	172	120	1
Collections on notes receivable			25
Net cash used in investing activities	(2,833)	(3,281)	(6,242)
<b>FINANCING ACTIVITIES:</b>			
Proceeds from borrowings under revolving line of credit	80,100	185,330	81,156
Payments on revolving line of credit	(80,100)	(191,130)	(68,375)
Payments on long-term debt	(702)	(978)	
Debt issuance costs		(150)	(241)
Preferred stock dividends	(132)	(189)	(257)
Net cash (used in) provided by financing activities	(834)	(7,117)	12,283
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(542)	373	(7)

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Net increase (decrease) in cash and cash equivalents	3,271	12,434	(4,897)
Cash and cash equivalents, beginning of year	20,967	8,533	13,430
Cash and cash equivalents, end of year	\$ 24,238	\$ 20,967	\$ 8,533

The accompanying notes are an integral part of these consolidated financial statements.

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**NGL SUPPLY, INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**  
**March 31, 2010, 2009 and 2008**

**Note 1 Nature of Operations and Organization**

NGL Supply, Inc. ("we", "NGL Supply" or "the Company") was organized on July 1, 1985 as a successor to a company founded in 1967, and is a diversified, vertically integrated provider of propane services including retail propane distribution; wholesale supply and marketing of propane and other natural gas liquids; and midstream operations which consist of propane terminal operations and services.

We began our retail propane operations during our fiscal year ended March 31, 2008 through the acquisition of retail operations in Kansas and Georgia, and expanded our retail operations through additional acquisitions during fiscal 2008 through 2010 (see Note 5). Our retail propane operations sell propane and propane-related products and services to residential commercial and agricultural customers in Kansas and Georgia.

Our wholesale supply and marketing operations provide propane supply to customers at open-access terminals throughout the common carrier pipeline systems in the Mid-Continent, Gulf Coast and Northeast regions of the United States. Our wholesale supply and marketing services include shipping and maintaining storage on these pipeline systems and supplying customers through terminals, refineries, third-party tank cars and truck terminals. Through our marketing and supply operations, we supply propane and other natural gas liquids to various refineries, multistate marketers ranging in size from national and regional distribution companies to medium and small independent propane companies located throughout the country.

In our midstream segment, we provide propane terminal services to customers through our three proprietary terminals. We established our terminalling market presence in the Mid-Continent region of the United States by acquiring Phillips Petroleum Company's East St. Louis, Illinois and Jefferson City, Missouri propane truck terminals in 2002. We expanded our terminal operations in 2003 by constructing a propane truck terminal in Saint Catherines, Ontario, Canada.

**Note 2 Summary of Significant Accounting Policies**

*Basis of Presentation*

Our financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP").

The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, NGL Supply Wholesale, LLC; NGL Supply Terminal Company, LLC; Econo-Gas Supply, LLC; NGL Supply Retail, LLC; and NGL Gateway Terminals, Inc. ("Gateway," a Canadian corporation previously 70% owned see Note 2). We accounted for a minority owner's 30% interest in Gateway (prior to our purchase of the interest in October 2010) as "noncontrolling interests" in the consolidated financial statements. All significant intercompany balances and transactions have been eliminated in consolidation.

In October 2010, our shareholders executed a business combination with NGL Energy Partners LP. We have been deemed to be the acquiring entity in the combination. Therefore, our financial statements represent the historical financial statement of NGL Energy Partners LP (see Note 16).

We have evaluated subsequent events for recognition or disclosure through February 11, 2011, which was the date the financial statements were filed with the SEC.



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**NGL SUPPLY, INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements (Continued)**  
**March 31, 2010, 2009 and 2008**

*Estimates*

The preparation of financial statements in accordance with GAAP requires us to make estimates and assumptions that affect the reported amounts of our assets, liabilities, revenues, expenses and costs. These estimates are based on our knowledge of current events, historical experience and various other assumptions that we believe to be reasonable under the circumstances.

Critical estimates we make in the preparation of our consolidated financial statements include determining the fair value of acquired assets and liabilities; the collectability of accounts receivable; the recoverability of inventories; the realization of deferred tax assets; useful lives and recoverability of property, plant and equipment and amortized intangible assets; the impairment of goodwill; the fair value of derivative financial investments and product exchanges; and accruals for various commitments and contingencies, among others. Although we believe these estimates are reasonable, actual results could differ from those estimates.

*Fair Value Measurements*

We apply fair value measurements to certain assets and liabilities, principally our commodity derivative instruments, product exchange assets and liabilities, and assets and liabilities acquired in a business combination. We adopted new guidance with respect to determining fair value measurements effective April 1, 2008. The new guidance defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the measurement date. The new guidance clarifies that fair value should be based upon assumptions that market participants would use when pricing an asset or liability, including assumptions about risk and risks inherent in valuation techniques and inputs to valuations. This includes not only the credit standing of counterparties and credit enhancements but also the impact of our own nonperformance risk on our liabilities. The new guidance requires fair value measurements to assume that the transaction occurs in the principal market for the asset or liability or in the absence of a principal market, the most advantageous market for the asset or liability (the market for which the reporting entity would be able to maximize the amount received or minimize the amount paid). We evaluate the need for credit adjustments to our derivative instrument fair values in accordance with the requirements noted above. Such adjustments were not material to the fair values of our derivative instruments.

We use the following fair value hierarchy, which prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

Level 1 Quoted prices (unadjusted) in active markets for identical assets and liabilities that we have the ability to access at the measurement date. We did not have any derivative financial instruments categorized as Level 1 at March 31, 2010 or 2009.

Level 2 Inputs other than quoted prices included within Level 1 that are either directly or indirectly observable for the asset or liability, including quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, inputs other than quoted prices that are observable for the asset or liability, and inputs that are derived from observable market data by correlation or other means. Instruments categorized in Level 2 include non-exchange traded derivatives such as over-the-counter commodity price swap and option contracts and interest rate protection agreements. All of our derivative financial instruments were categorized as Level 2 at March 31, 2010 and 2009. Our valuation of product exchanges represents a Level 2 valuation.

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**NGL SUPPLY, INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements (Continued)**  
**March 31, 2010, 2009 and 2008**

Level 3 Unobservable inputs for the asset or liability including situations where there is little, if any, market activity for the asset or liability. We did not have any derivative financial instruments categorized as Level 3 at March 31, 2010 or 2009.

The fair value hierarchy gives the highest priority to quoted prices in active markets (Level 1) and the lowest priority to unobservable data (Level 3). In some cases, the inputs to measure fair value might fall into different levels of the fair value hierarchy. The lowest level input that is significant to a fair value measurement in its entirety determines the applicable level in the fair value hierarchy. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment, considering factors specific to the asset or liability. The adoption of the new fair value guidance effective April 1, 2008 did not have a material impact on our consolidated financial statements.

*Derivative Financial Instruments and Trading Activities*

We account for derivative financial instruments in accordance with guidance provided by the Accounting Standards Codification (the "Codification") which requires that all derivative financial instruments be recognized as either assets or liabilities and measured at fair value. The accounting for changes in fair value depends upon the purpose of the derivative instrument and whether it is designated and qualifies for hedge accounting.

We record our energy trading derivative financial instrument contracts at fair value on the consolidated statements of financial position, with changes in value included in the consolidated statements of operations in cost of sales on a net basis. Contracts that qualify for the normal purchase or sale exemption are not accounted for as derivatives at market value and, as such, are recorded when the transaction occurs. We have not designated any financial instruments as hedges for accounting purposes. All mark-to-market gains and losses on energy trading contracts, whether realized or unrealized are shown net in the consolidated statement of operations, irrespective of whether the contract is physically or financially settled. All changes in fair value are recorded in cost of sales of our wholesale supply and marketing segment in the consolidated statements of operations.

We utilize various derivative financial instrument contracts in our wholesale supply operations to help reduce our exposure to variability in future commodity prices. Changes in assets and liabilities from trading activities result primarily from changes in market prices, newly originated transactions and the timing of the settlement. We attempt to balance our contractual portfolio in terms of notional amounts, timing of performance and delivery obligations. However, net unbalanced positions can exist or are established based on our assessment of anticipated market movements. Inherent in the resulting contractual portfolio are certain business risks, including market risk and credit risk. Market risk is the risk that the value of the portfolio will change, either favorably or unfavorably, in response to changing market conditions. Credit risk is the risk of loss from non-performance by suppliers, customers, or financial counterparties to a contract. We take an active role in managing and controlling market and credit risk and have established control procedures that we review on an ongoing basis. We monitor market risk through a variety of techniques and attempt to minimize credit risk exposure through credit policies and periodic monitoring procedures.

See Note 13 for a more detailed description of the derivative financial instruments we use and related supplemental information.

*Segments*

Operating segments are defined as components of an enterprise for which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding

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**NGL SUPPLY, INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements (Continued)**  
**March 31, 2010, 2009 and 2008**

how to allocate resources and assess performance. Based on that definition of operating segments, we examined how we have organized our operations and how we make operating decisions and evaluate our performance. We believe that we operate in three operating segments, retail propane; wholesale supply and marketing; and midstream, which historically has consisted of our terminal operations. All of our operations are located in the United States except for certain terminal operations in Canada. See Note 15 for the disclosures related to our reportable operating segments.

*Revenue Recognition*

Our revenue is primarily generated by the sale of propane and other natural gas liquids and propane-related parts and fittings in the United States and by services provided by our retail propane, wholesale supply and marketing, and terminal operations in the United States and Canada.

We accrue our revenues from propane and other natural gas liquids sales and propane-related sales at the time title to the product transfers to the purchaser, which typically occurs upon receipt of the product by the purchaser or installation of the appliance. We record our terminalling, storage and propane service revenues at the time the service is performed and tank rentals over the term of the lease. We record product purchases at the time title to the product transfers to the Company, which typically occurs upon receipt of the product. We present revenue-related taxes collected from customers and remitted to taxing authorities, principally sales and use taxes, on a net basis.

We consider two or more legally separate exchange transactions with the same counterparty, including buy/sell transactions, as a single arrangement on a combined basis. Our buy/sell transactions are netted against each other on the consolidated statements of operations with no effect on net income.

*Cost of Sales*

We include in "Cost of Sales" all costs we incur to acquire propane and other natural gas liquids, including the costs of purchasing, terminalling, storing and transporting inventory prior to delivery to our retail or wholesale customers, as well as any costs related to the sale of propane appliances and equipment. Cost of sales does not include any depreciation or amortization of our property, plant and equipment or intangible assets. Depreciation and amortization is separately classified in our consolidated statements of operations. We also include in cost of sales for our terminal operations the costs paid to the third parties who operate those facilities under operating and maintenance agreements.

*Operating Expenses*

We include in "Operating Expenses" costs of personnel, vehicles, delivery, handling, plants, district offices, selling, marketing, credit and collections and other functions related to the wholesale and retail distribution of propane and related equipment and supplies and the direct operating expenses of our terminal and storage locations.

*General and Administrative Expenses*

We include in "General and Administrative Expenses" those costs and expenses of personnel, executives, corporate office locations and other functions related to centralized corporate and overhead activities, including incentive compensation expenses of our corporate personnel.

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**NGL SUPPLY, INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements (Continued)**  
**March 31, 2010, 2009 and 2008**

*Cash and Cash Equivalents*

Cash and cash equivalents include cash on hand, demand and time deposits, and funds invested in highly liquid instruments with maturities of three months or less at the date of purchase. At times, certain account balances may exceed federally insured limits. At March 31, 2010, we had cash in excess of federally insured limits of approximately \$21.3 million.

Supplemental cash flow information:

	2010	2009	2008
	(in thousands)		
NON-CASH FINANCING ACTIVITIES			
Non-compete, customer list and contingent consideration liabilities related to acquisitions	\$ 450	\$ 909	\$ 2,894
SUPPLEMENTAL CASH FLOW DISCLOSURE			
Interest paid	\$ 387	\$ 1,233	\$ 924
Income taxes paid	\$ 472	\$ 472	\$ 40

Cash flows from commodity derivative instruments that are not accounted for as hedges are classified as cash flows from investing activities in the consolidated statements of cash flows.

*Accounts Receivable and Concentration of Credit Risk*

We operate in both the retail and wholesale propane supply segments in the United States and Canada. We grant unsecured credit to customers under normal industry standards and terms, and have established policies and procedures that allow for an evaluation of each customer's creditworthiness as well as general economic conditions. The allowance for doubtful accounts is based on our assessment of the collectability of customer accounts, which assessment considers the overall creditworthiness of customers and any specific disputes. The balance is considered past due or delinquent based on contractual terms. Consequently, an adverse change in those factors could affect the Company's estimate of bad debts. We write off accounts receivable against the allowance for doubtful accounts when the receivables become uncollectible.

We execute netting agreements with certain wholesale supply customers to mitigate our credit risk. Realized gains and losses reflected in our receivables and payables are reflected at a net balance to the extent a netting agreement is in place and we intend to settle on a net basis.

Changes in the allowance for doubtful accounts during the years ended March 2010, 2009 and 2008 are as follows:

	2010	2009	2008
	(in thousands)		
Allowance for doubtful accounts, beginning of year	\$ 403	\$ 61	\$
Bad debt provision	82	343	40
(Write off) collection of uncollectible accounts	(250)	(1)	21
Allowance for doubtful accounts, end of year	\$ 235	\$ 403	\$ 61

For the years ended March 31, 2010, 2009 and 2008, no customers accounted for more than 10% of our consolidated revenues. Three of our suppliers accounted for approximately 50.7% of our propane

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**NGL SUPPLY, INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements (Continued)**  
**March 31, 2010, 2009 and 2008**

purchases during the year ended March 31, 2010. We believe that our arrangements with these suppliers enable us to purchase most of our requirements at market prices and ensure adequate supply. No other single supplier accounted for more than 10% of propane purchases during fiscal 2010, 2009 and 2008.

*Inventories*

Our inventories consist primarily of propane. We value our propane inventory at the lower of cost or market, with cost determined using the weighted average cost method, including the cost of transportation to storage facilities and storage costs. We continually monitor inventory values for potential lower of cost or market adjustments and will record such adjustments at fiscal year end and on an interim basis if we believe the decline in market value will not be recovered by year end. We recorded a lower of cost or market write down of inventory of approximately \$321,000 and \$5.4 million during our years ended March 31, 2010 and 2009. No such writedowns were required during the year ended March 31, 2008. We include the lower of cost or market writedown in cost of sales of our wholesale supply and marketing segment in the consolidated statements of operations.

Our inventories as of March 31, 2010 and 2009 consisted of the following:

	<b>2010</b>	<b>2009</b>
	<b>(in thousands)</b>	
Propane	\$ 6,826	\$ 14,865
Parts and supplies	457	425
<b>Total</b>	<b>\$ 7,283</b>	<b>\$ 15,290</b>

*Property, Plant and Equipment, Depreciation and Impairments*

We record our property, plant and equipment at cost, less accumulated depreciation. Acquisitions and improvements are capitalized, and maintenance and repairs are expensed as incurred. As we dispose of assets, we remove the cost and related accumulated depreciation from the accounts and any resulting gain or loss is included in other income. We compute depreciation expense primarily using the straight-line method over the following estimated useful lives:

Terminals	30 years
Retail propane equipment	5 - 15 years
Other	3 - 7 years

We evaluate the carrying value of our long-lived assets for potential impairment when events and circumstances warrant such a review. A long-lived asset is considered impaired when the anticipated undiscounted future cash flows from the use and eventual disposition of the asset is less than its carrying value. In that event, we would recognize a loss equal to the amount by which the carrying value exceeds the fair value of the asset. No impairments of long-lived assets were recorded for the years ended March 31, 2010, 2009 and 2008.

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*Intangible Assets*

Our identifiable intangible assets consist primarily of significant contracts and arrangements acquired in business combinations, including supply, terminal and storage agreements, customer accounts and covenants not to compete. We capitalize acquired intangible assets if the benefit of the intangible asset is obtained through contractual or other legal rights, or if the intangible asset can be sold, transferred, licensed, rented or exchanged, regardless of our intent to do so. In addition, we capitalize certain deferred financing costs incurred in our long-term debt arrangements. We amortize deferred financing costs over the terms of the related debt on a method that approximates the effective interest method.

We amortize our intangible assets other than deferred financing costs on a straight-line basis over the assets' useful lives (see Note 8).

*Goodwill*

Goodwill represents the excess of cost over the fair value of net assets of acquired businesses. At March 31, 2010 and 2009, our recorded goodwill is associated with the acquisition of the Company by a wholly owned affiliate of Denham Commodity Partners Fund II LP ("Denham") (a private investment fund advised by Denham Capital Management LP) in 2004 and various of our prior and current year retail propane acquisitions. We recorded our acquisitions based on the "purchase method" of accounting for business combinations that closed on or before March 31, 2009. Business combinations occurring subsequent to March 31, 2009 have been accounted for using the "acquisition method" (see Note 5). We expect that all of our recorded goodwill is deductible for income tax purposes.

*Impairment of Goodwill and Intangible Assets*

Goodwill and intangible assets acquired in a business combination and determined to have an indefinite useful life are not amortized, but instead are tested at least annually for impairment at year end. Intangible assets with estimable useful lives are amortized over their respective useful lives to their estimated residual values, and reviewed for impairment annually or when events and circumstances warrant such a review.

We evaluate goodwill and indefinite-lived intangible assets for impairment annually or when events or circumstances occur indicating that the assets might be impaired. We perform this annual impairment testing during the fourth quarter of each year.

The annual impairment assessment of goodwill is a two-step process:

In step 1 of the goodwill impairment test, we compare the fair value of the reporting unit with its carrying amount, including goodwill. If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is not considered impaired. If the carrying amount of a reporting unit exceeds its fair value, we perform the second step of the goodwill impairment test to measure the amount of impairment loss, if any.

In step 2 of the goodwill impairment test, we compare the implied fair value of reporting unit goodwill with the carrying amount of that goodwill. If the carrying amount of the reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess.

We utilize the market approach in determining the fair value of the Company's segment reporting units. The market approach considers our forecasted discounted future cash flows and a terminal value

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which applies a market multiple to adjusted cash flows. Based upon this analysis, we concluded that the fair value of the segment reporting units exceeded the carrying values and therefore step 2 of goodwill impairment testing was not required for the years ended March 31, 2010, 2009 and 2008.

Estimates and assumptions used to perform the impairment testing are inherently uncertain and can significantly affect the outcome of the impairment test. The estimates and assumptions we used in the annual assessment for impairment of goodwill included market participant considerations and future forecasted operating results. Changes in operating results and other assumptions could materially affect these estimates.

*Product Exchanges*

Quantities of products receivable or returnable under exchange agreements are presented as product exchange assets or liabilities in the consolidated balance sheet. We value product exchanges at year-end market value using a Level 2 measurement, which we believe approximates cost.

*Asset Retirement Obligations*

We record the fair value of an asset retirement obligation as a liability in the period a legal obligation for the retirement of tangible long-lived assets is incurred, typically at the time the assets are placed into service. A corresponding asset is also recorded and depreciated over the life of the asset. After the initial measurement, we also recognize changes in the amount of the liability resulting from the passage of time and revisions to either the timing or amount of estimated cash flows.

We have determined that we are obligated by contractual requirements to remove facilities or perform other remediation upon retirement of certain assets. Determination of the amounts to be recognized is based upon numerous estimates and assumptions, including expected settlement dates, future retirement costs, future inflation rates and the credit-adjusted risk-free interest rates. However, we are not able to reasonably measure the fair value of the asset retirement obligations as of March 31, 2010 or 2009 because the settlement dates were indeterminable. An asset retirement obligation will be recorded in the periods we can reasonably determine the settlement dates.

*Foreign Currency Translation*

The functional currency of Gateway is the Canadian dollar. Assets and liabilities are translated into U.S. dollars at the rate of exchange in effect at the balance sheet date while revenues, expenses, gains and losses are translated at the average exchange rate for the period. The resulting translation adjustments are accumulated in the other comprehensive income component of equity.

Foreign currency transaction gains and losses are recognized currently in the statements of operations. For the year ended March 31, 2010, we realized a foreign currency transaction loss of approximately \$216,000, compared to a foreign currency transaction gain of approximately \$217,000 and \$75,000 during the years ended March 31, 2009 and 2008, respectively.

*Income Taxes*

The current provision for income taxes is based on current federal and state statutory rates, which are adjusted based on changes in tax laws and significant fluctuations in taxable income.

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to

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apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. We classify deferred tax liabilities and assets into current and non-current amounts based on the classification of the related assets and liabilities. Certain judgments are made relating to recoverability of deferred tax assets, the level of expected future taxable income and available tax planning strategies.

See Note 10 for additional information related to income taxes.

*Share-Based Compensation*

The cost of employee services received in exchange for equity instruments is measured based on the grant-date fair value of those instruments. That cost is recognized as compensation expense over the requisite service period (usually the vesting period). Generally, no compensation cost is recognized for equity instruments that do not vest. See Note 12 for additional information related to share-based compensation.

*Accrued Expenses and Other Payables*

Accrued expenses and other payables consist of the following at March 31, 2010 and 2009:

	2010	2009
	(in thousands)	
Accrued bonuses	\$ 3,624	\$ 3,120
Other	1,121	1,135
<b>Total</b>	<b>\$ 4,745</b>	<b>\$ 4,255</b>

*Advance Payments Received from Customers*

We record customer advances on product purchases as a liability in the consolidated statements of financial position.

**Note 3 Recent Accounting Standards**

On July 1, 2009, the Financial Accounting Standards Board ("FASB") instituted a new referencing system, which codifies, but does not amend, previously existing nongovernmental GAAP. The *FASB Accounting Standards Codification* (the "Codification") is now the single authoritative source for GAAP. The Codification was intended to simplify user access to all authoritative GAAP by providing all authoritative literature in one place. Adoption of the Codification did not have a material impact on our consolidated financial statements.

In May 2009, the Financial Accounting Standards Board ("FASB") issued an update to the GAAP rules for consolidation. The objective of this update is to improve the relevance, comparability, and transparency of the financial information that a reporting entity provides in its consolidated financial statements. Specifically, the update requires the recognition of a noncontrolling interest (formerly, "minority interest") as equity in the consolidated financial statements and separate from the parent's equity. The amount of the net income attributable to the noncontrolling interest is included in consolidated net income on the face of the income statement. The new standard clarifies that changes in a parent's ownership interest in a subsidiary that do not result in deconsolidation are equity transactions if the parent retains its controlling financial interest. In addition, the new standard requires that a parent recognizes a gain or loss in net income when a subsidiary is deconsolidated. Such gain or loss is



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measured using the fair value of the noncontrolling equity investment on the deconsolidation date. This standard also includes expanded disclosure requirements regarding the interests of the parent and its noncontrolling interest. Upon adoption, the noncontrolling interest in Gateway was classified as noncontrolling interest within the equity section of our consolidated statements of financial position. Net income attributable to the Company has not changed due to the adoption of this update. The presentation has been applied retrospectively for all prior periods presented.

During fiscal year 2010, we adopted the updated GAAP rules for subsequent events. Under this update, we are required to evaluate subsequent events through the date that the consolidated financial statements are filed with the Securities and Exchange Commission ("SEC"). The adoption of this standard does not change our practices with respect to evaluating, recording, and disclosing subsequent events; therefore, adoption of this update had no impact on our consolidated statements of financial position or results of operations.

In November 2008, the SEC released a proposed roadmap regarding the potential use by U.S. issuers of financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"). IFRS represent accounting standards published by the International Accounting Standards Board (the "IASB"), which is based in London, England. In February 2010, the SEC expressed its continuing support for a single set of high-quality globally accepted accounting standards and established a general work plan that sets forth areas and factors the SEC will consider before requiring domestic public companies to transition to IFRS. Currently, the Financial Accounting Standards Board (the "FASB") and the IASB are working individually and jointly on a number of accounting standard convergence projects that, if finalized in 2011, would bring about a significant shift in the accounting and financial reporting landscape. These projects include a broad range of topics such as financial statement presentation, accounting for leases, revenue recognition, financial instruments, consolidations and fair value measurements.

The SEC expects to make a determination in 2011 regarding the mandatory adoption of IFRS, with the expectation that any decision to adopt IFRS will allow U.S. issuers a number of years to transition from current GAAP. We continue to monitor developments regarding the potential implementation of IFRS and the ongoing convergence projects of the FASB and IASB. We will evaluate the impact that any definitive accounting guidance may have on our financial statements once this information is finalized by the appropriate standard setting organizations, including the SEC.

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**Note 4 Earnings per Share**

Our earnings per share of common stock for the years ended March 31, 2010, 2009 and 2008 were computed as follows:

	2010	2009	2008
	(in thousands, except per share amounts)		
Basic Earnings per Common Share:			
Net income to the parent equity	\$ 3,636	\$ 4,949	\$ 1,613
Less preferred stock dividends	132	189	257
Net income allocable to common shareholders	\$ 3,504	\$ 4,760	\$ 1,356
Weighted average common shares outstanding	19,603	19,603	19,603
Earnings per share Basic	\$ 178.75	\$ 242.82	\$ 69.17
Diluted Earnings per Common Share:			
Net income allocable to common shareholders for basic earnings per share	\$ 3,504	\$ 4,760	\$ 1,356
Weighted average common shares outstanding for basic earnings per share	19,603	19,603	19,603
Assumed exercise of stock options, treasury stock method	237	237	237
Weighted average common shares outstanding for diluted earnings per share	19,840	19,840	19,840
Earnings per share Diluted	\$ 176.61	\$ 239.92	\$ 68.35

**Note 5 Acquisitions***Fiscal 2010*

On August 4, 2009, we acquired substantially all of the assets of Reliance Energy Partners, L.L.C., a company operating in the retail propane business. The aggregate purchase price for this acquisition totaled approximately \$2.8 million, which included liabilities assumed and non-compete agreements of approximately \$450,000 payable to the previous owners over three years. Results of operations for this acquired business are included in our consolidated statement of operations beginning August 4, 2009.

*Fiscal 2009*

On April 30, 2008, we acquired substantially all of the propane assets of Capital City Oil, Inc., located in Kansas. Additionally, on June 2, 2008, we acquired substantially all of the assets of Douglas Propane Gas Company and Morris Propane Service, Inc., located in Georgia. Both of these companies operate primarily in the retail propane business. Results of operations for these businesses acquired are included in our consolidated statement of operations beginning with their respective acquisition date.

The aggregate purchase price for the fiscal year 2009 acquisitions totaled approximately \$4.0 million, which included liabilities assumed and non-compete agreements of approximately \$600,000 payable to the previous owners over periods ranging from two to five years.

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*Fiscal 2008*

On July 2, 2007, we acquired substantially all of the assets of Propane Central LLC ("Propane Central"), Payne Oil Company, Inc., Baer Gas & Electric, Inc., and Damian Corporation. Additionally, on August 31, 2007, we acquired substantially all of the assets of Fuel Outlet P1, L.L.C., and Fuel Outlet P2, L.L.C. All of these retail propane operations are located in Kansas. We also acquired substantially all of the assets of Brantley Gas and Appliance Co., Inc. and Rural Gas Inc. on July 30, 2007, and Harper Gas Service, Inc. on January 16, 2008. All of these retail propane operations are located in Georgia. Results of operations for these businesses acquired are included in our consolidated statements of operations beginning with their respective acquisition dates.

The aggregate purchase price for our fiscal year 2008 acquisitions totaled approximately \$10.3 million, which included liabilities assumed and non-compete agreements of approximately \$1.2 million payable to the previous owners over periods ranging from two to five years. Additionally, we were required to pay \$1.5 million over the subsequent four years to previous owners related to acquired customer lists.

These acquisitions were primarily financed with borrowings under our revolving credit facility (see Note 9) and were accounted for by the acquisition method. Certain of our prior year acquisitions include contingent consideration that may be payable at a future date, dependent upon certain facts and circumstances as described in the acquisition-related agreements. During the years ended March 31, 2010, 2009 and 2008, we accrued approximately \$478,000, \$308,000 and \$298,000, respectively, of contingent consideration related to our fiscal year 2008 acquisitions, which was recorded as an increase to goodwill.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed during fiscal years 2010, 2009 and 2008:

	2010	2009	2008
	(in thousands)		
Cash and cash equivalents	\$	\$ 1	\$ 1,250
Other current assets	494	484	2,612
Property, plant and equipment	2,100	2,647	5,187
Customer lists (10 years)		274	2,344
Non-compete agreements	450	600	1,189
Goodwill			1,202
Total assets acquired	3,044	4,006	13,784
Total liabilities assumed	286	46	3,530
Net assets acquired	\$ 2,758	\$ 3,960	\$ 10,254

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**Note 6 Property, Plant and Equipment**

Property, plant and equipment consists of the following at March 31, 2010 and 2009:

Description and Useful Life	2010	2009
	(in thousands)	
Terminal assets (30 years)	\$ 23,246	\$ 22,723
Retail propane equipment (5-15 years)	8,325	6,552
Vehicles (5-7 years)	1,672	1,266
Information technology equipment (3 years)	1,845	1,824
Other (3-7 years)	1,249	1,030
	36,337	33,395
Less: Accumulated depreciation	7,652	5,600
Net property, plant and equipment	\$ 28,685	\$ 27,795

**Note 7 Goodwill**

Changes to recorded goodwill during the years ended March 31, 2010, 2009 and 2008 were as follows:

	2010	2009	2008
	(in thousands)		
Beginning of year	\$ 3,755	\$ 3,444	\$ 2,345
Goodwill from acquisitions, including additional consideration paid	805	414	1,202
Income tax benefit applied to reduce goodwill	(103)	(103)	(103)
End of year	\$ 4,457	\$ 3,755	\$ 3,444

**Note 8 Intangible Assets**

Intangible assets consist of the following at March 31:

Useful Lives	2010	2009
	(in thousands)	
Supply and storage agreements 8 years	\$ 7,105	\$ 7,105
Customer lists 8 - 10 years	2,956	2,956
Non-compete agreements 2 - 6 years	2,253	1,803
Total intangible assets	12,314	11,864
Less: Accumulated amortization	6,686	5,091
Net intangible assets	\$ 5,628	\$ 6,773

Future amortization expense is estimated to be approximately \$1.6 million per year for 2011 and 2012, \$1.2 million for 2013, and \$300,000 per year for 2014 and 2015.



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**Note 9 Long-Term Obligations**

We have the following long-term debt at March 31, 2010 and 2009:

	2010	2009
	(in thousands)	
Revolving credit facility	\$	\$
Acquisition revolving credit facility	6,981	6,981
Notes payable	2,119	2,371
	9,100	9,352
Less: Current maturities	752	775
Long-term debt	\$ 8,348	\$ 8,577

*Revolving Credit Facility*

On November 13, 2006, we entered into an uncommitted credit facility agreement ("Revolving Credit Agreement") with a commercial bank which we amended during fiscal year 2010 to extend the expiration date to February 28, 2011. Under the Revolving Credit Agreement we have an uncommitted borrowing base ("Borrowing Base") totaling \$45.0 million, which includes up to an aggregate of \$3.0 million for performance letters of credit, as defined in the Revolving Credit Agreement, \$10.0 million for letters of credit with terms of 91 days to 365 days and \$2.0 million for advances to obligors to fund settlements of margin calls on our derivative financial instruments ("Advances"). We had no amount outstanding on the Borrowing Base at March 31, 2010 and 2009, respectively. We had outstanding letters of credit totaling \$8.0 million and \$7.1 million at March 31, 2010 and 2009, respectively. Borrowings under the Agreement bear interest at the bank's prime rate (3.25% at March 31, 2010). The Revolving Credit Agreement is collateralized by substantially all of our assets. We are subject to certain financial covenants under the Revolving Credit Agreement, which include a minimum net working capital and tangible net worth and a maximum ratio of total liabilities to tangible net worth. We were in compliance with the covenants as of March 31, 2010 and 2009. Borrowings on the Revolving Credit Agreement were paid with advances under a new debt agreement and the Revolving Credit Agreement was cancelled in October 2010 (see Note 16).

*Acquisition Revolving Credit Facility*

On September 7, 2007, we entered into an acquisition revolving credit agreement ("Acquisition Credit Agreement") with a commercial bank. Under the Acquisition Credit Agreement, which was to expire September 7, 2010, we had a committed revolving credit line totaling \$9.0 million. This credit facility is to be used for our approved asset acquisitions. We had an outstanding balance of approximately \$7.0 million on the acquisition revolving credit facility at March 31, 2010 and 2009. Borrowings under the Acquisition Credit Agreement bear interest at the bank's prime rate (3.25% at March 31, 2010). We are subject to certain financial covenants under the Acquisition Credit Agreement, which include an interest coverage ratio, a minimum net working capital and tangible net worth and a maximum ratio of total liabilities to tangible net worth. We were in compliance with the covenants as of March 31, 2010 and 2009. This Acquisition Credit Agreement was extended subsequent to September 2010, and was paid in full in October 2010 with advances under a new debt agreement (see Note 16).

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*Notes Payable*

During 2010 and 2009, we executed various notes payable related to acquisitions as discussed in Note 5. These notes payable are due to the previous owners of the acquired entities, mature through 2014, and are related to non-compete agreements and acquired customer lists. These notes are non-interest bearing. The future maturities of these notes payable are as follows as of March 31, 2010 (amounts in thousands):

**Year Ending March 31,**

2011	\$ 752
2012	830
2013	452
2014	85
	\$ 2,119

*Capital Lease Obligation*

Through our acquisition of Propane Central during fiscal year 2008 (see Note 5), we assumed a lease for certain propane tanks. The lease is accounted for as a capital lease. At its origination, May 10, 2005, the lease required monthly payments of \$11,000 over a period of 84 months with a renewal option extending the lease for an additional 36 months. We assumed the obligations under the lease on July 2, 2007. The lease contains a bargain purchase option with the title transferring at the end of the lease, and in substance, we are financing the acquisition of the propane tanks through the lease. Accordingly, we recorded the propane tanks as an asset and the capital lease obligation is categorized as "other non-current liabilities" in the consolidated statements of financial position.

The following is an analysis of the leased assets included in property, plant and equipment as of March 31, 2010 (amounts in thousands):

Propane tanks under capital lease	\$ 404
Less: Accumulated depreciation	138
	\$ 266

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**NGL SUPPLY, INC. AND SUBSIDIARIES**  
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Future minimum lease payments under the capital lease for each of the remaining years, including the renewal period, and in the aggregate, are as follows (amounts in thousands):

<b>Year Ending March 31,</b>	
2011	\$ 129
2012	129
2013	130
2014	130
2015	130
	648
Less: Amount representing interest	145
Present value of minimum lease payments	\$ 503
Current maturities	\$ 73
Noncurrent maturities	430
	\$ 503

**Note 10 Income Taxes**

The geographic components of our income (loss) before provision for income taxes are as follows for the years ended March 31, 2010, 2009 and 2008:

	<b>2010</b>	<b>2009</b>	<b>2008</b>
	<b>(in thousands)</b>		
United States	\$ 6,128	\$ 8,391	\$ 2,629
Canada	(20)	(267)	(97)
	\$ 6,108	\$ 8,124	\$ 2,532

The following summarizes the income tax provisions for the years ended March 31, 2010, 2009 and 2008:

	<b>2010</b>	<b>2009</b>	<b>2008</b>
	<b>(in thousands)</b>		
Current provision			
Federal	\$ 89	\$ 86	\$
Foreign			
State	199		
Deferred provision			
Federal	1,867	2,743	756
Foreign			
State	220	323	89
	2,375	3,152	845
Deferred provision applied to reduce goodwill	103	103	103



Total income tax provision	\$	2,478	\$	3,255	\$	948
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**NGL SUPPLY, INC. AND SUBSIDIARIES**  
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Our effective tax rate differs from the statutory rate due to the following for the years ended March 31, 2010, 2009 and 2008:

	2010	2009	2008
Statutory tax rate	35.00%	35.00%	35.00%
State income taxes, net of Federal benefit	5.84	3.04	3.00
Valuation allowance on Gateway	0.12	1.21	1.46
Other	(0.39)	0.82	(2.02)
Effective tax rate	40.57%	40.07%	37.44%

As of March 31, 2010 and 2009, the components of our deferred tax assets and liabilities consisted of the following:

	2010	2009
	(in thousands)	
<b>CURRENT</b>		
Expenses not currently deductible	\$ 215	\$ 337
<b>NON-CURRENT</b>		
Assets		
Alternative minimum tax credit carryforward	\$ 44	\$ 130
Net operating loss carryforwards	236	1,434
Goodwill	966	772
Valuation allowance	(236)	(229)
Liability		
Property, plant and equipment	(6,232)	(5,364)
Net non-current deferred tax liability	\$ 5,222	\$ 3,257

At March 31, 2010 and 2009, the accompanying consolidated financial statements include \$236,000 and \$229,000, respectively, of deferred tax assets associated with Canadian operating loss carryforwards related to Gateway. We are unable to conclude that it is more likely than not that the carryforwards will be utilized and therefore we have provided a valuation allowance against the loss carry forwards.

We are part of a group that files a consolidated federal income tax return. This group includes the principal shareholder of NGL Supply, NGL Holdings, Inc. ("Holdings"). As of March 31, 2010, Holdings had utilized certain of our net operating loss carryforwards. Therefore, we have recorded a \$25,000 "parent company tax receivable" related to the Parent's utilization of our net operating loss carryforwards.

We evaluate uncertain tax positions for recognition and measurement in the consolidated financial statements. To recognize a tax position, we determine whether it is more likely than not that the tax positions will be sustained upon examination, including resolution of any related appeals or litigation, based on the technical merits of the position. A tax position that meets the more likely than not threshold is measured to determine the amount of benefit to be recognized in the consolidated financial statements. The amount of tax benefit recognized with respect to any tax position is measured as the largest amount of benefit that is greater than 50 percent likely of being realized upon settlement. We had no uncertain tax positions that required recognition in the consolidated financial statements at March 31, 2010, 2009 or 2008. Any interest or penalties would be recognized as a component of income tax expense. No income tax returns are currently under examination by any tax authorities. We consider our open tax years to be 2007 through 2010.

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**NGL SUPPLY, INC. AND SUBSIDIARIES**  
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**Note 11 Commitments and Contingencies**

*Environmental Matters*

Our operations are subject to extensive Federal, state and local environmental laws and regulations that could require expenditures for remediation of operating facilities. Although we believe our operations are in substantial compliance with applicable environmental laws and regulations, risks of additional costs and liabilities are inherent in the propane distribution, terminal and storage business, and there can be no assurance that significant costs and liabilities will not be incurred. Moreover, it is possible that other developments, such as increasingly stringent environmental laws, regulations and enforcement policies thereunder, and claims for damages to property or persons resulting from the operations, could result in substantial costs and liabilities. Accordingly, we have adopted policies, practices and procedures in the areas of pollution control, product safety, occupational health, and the handling, storage, use, and disposal of hazardous materials to prevent material environmental or other damage, and to limit the financial liability, which could result from such events. However, some risk of environmental or other damage is inherent in our business.

*Obligations Under Propane Asset Purchase and Sale Agreement*

In connection with our purchase of certain propane assets from ConocoPhillips, we executed the following agreements in November 2002:

*Propane Business Operating & Maintenance Agreement.* The Propane Business Operating & Maintenance Agreement specifies that ConocoPhillips will continue to operate the propane assets for us and provides for the payment for such services as well as the payment for the utilization of certain common facilities, as defined. The agreement has a primary term of ten years from November 7, 2002, and provides for an extension solely at our option for a five-year period, to be followed on a year-by-year basis. We have the ability to terminate the agreement with written notice by August 1 of the calendar year preceding the year we would terminate the agreement.

We are obligated to pay a fixed monthly operating fee plus a utility service fee which varies based on usage and all direct costs incurred by ConocoPhillips related to the propane assets. The initial monthly operating fee was \$25,000, which consisted of a labor charge of \$15,000 plus a non-labor charge of \$10,000. During the ten-year primary term, the labor charge component increases at a rate of 2.5% per year, and during the five-year extension, the labor charge component is increased at an amount appropriate in the circumstances based on ConocoPhillips' actual labor and benefit costs. The non-labor component was fixed for a term of two years, but thereafter was to be adjusted for every two-year period based on ConocoPhillips' actual costs of operating our propane assets. For the years ended March 31, 2010, 2009 and 2008, the total operating fee charged to cost of sales on the consolidated statements of operations, including the charge for the utility service fee and propane asset direct charges, was \$385,000, \$395,000 and \$361,000. During the remaining term of the primary ten-year period and the five-year extension, the estimated minimum annual commitments for the Propane Business Operating &

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**NGL SUPPLY, INC. AND SUBSIDIARIES**  
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Maintenance Agreement for the years ending March 2011 through March 31, 2015 are as follows (amounts in thousands):

**Year Ending March 31,**

2011	\$ 340
2012	342
2013	345
2014	345
2015	345

*Propane Supply Agreement.* This agreement was executed effective November 7, 2002, in order to provide us with a constant supply of propane for our business. The agreement is for a primary term of ten years, and may be extended solely at our option for an additional five-year period, then continuing on a year-by-year basis.

The agreement specifies that we can purchase up to 4.2 million gallons of propane per week from ConocoPhillips. The price we will pay is an average of the published daily propane spot price at Conway, Kansas plus a location differential equal to published pipeline tariffs and, for the ten-year primary period, less a specified discount which varies depending upon the location of purchase. The charge for such propane purchases is included in cost of sales on our consolidated statements of operations.

*Storage Space Lease.* Effective November 7, 2002, we also executed a propane storage space lease with ConocoPhillips for storage at its Borger, Texas storage facility for a level of up to 850,000 barrels, or 36 million gallons, of propane at any one time. The agreement expires on March 31, 2012.

The agreement requires a specified minimum storage payment that varies by year, plus additional charges to the extent we had more than the designated 850,000 barrels in storage at any time. For the years ended March 31, 2010, 2009 and 2008, the total lease charge recorded in cost of sales on our consolidated statements of operations was \$408,000, \$408,000 and \$383,000. As of March 31, 2010, the monthly storage charge is approximately \$36,000. For each of the years ending March 31, 2011 through 2012, the estimated annual storage charge will be \$434,000.

*Other Operating Leases*

We have executed various noncancelable operating lease agreements for office space, trucks, real estate, equipment and bulk propane storage tanks. Future minimum lease payments at March 31, 2010, are as follows (amounts in thousands):

**Year Ending March 31,**

2011	\$ 253
2012	218
2013	199
2014	114
2015	25

\$ 809

Rental expense relating to operating leases was \$566,000, \$591,000 and \$469,000 for the years ended March 31, 2010, 2009 and 2008.

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**NGL SUPPLY, INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements (Continued)**  
**March 31, 2010, 2009 and 2008**

*Sales and Purchase Contracts*

We have entered into sales and purchase contracts for propane and other natural gas liquids to be delivered in future periods. These contracts require that the parties physically settle the transactions with natural gas liquid inventory. At March 31, 2010 and 2009, we had outstanding sales contracts of approximately \$93.7 million and \$76.4 million and outstanding purchase contracts of approximately \$125.1 million and \$147.1 million, respectively. These contracts have terms that expire at various dates through May 2011.

*Employment Agreements*

Additionally, we have entered into employment agreements with certain of our employees ("Employee"). These employment agreements had a three-year term and expired on September 30, 2007. These agreements were extended on a month-to-month basis after the original three-year term expired at the option of the Employee. Under these agreements, we are obligated to pay a base salary and a set amount of vacation to each Employee. The agreements are cancelable at the option of the Employee with six months written notice. Upon termination of the employment agreement, the Employee is obligated to sell any stock he owns back to the Company. If we terminate the Employee under certain conditions set forth in the agreements, each Employee can make a "payout" election and we would be obligated to pay the Employee for the remaining amount of the three-year term from the date of termination. At the termination of the original three-year term, all employees covered by such agreements elected to continue the agreements on a month-to-month basis. As of March 31, 2010, all Employees were still employed by the Company and as such, we have not recorded any liability for this contingency in the consolidated financial statements. These agreements expired subsequent to March 31, 2010.

*Litigation*

We are involved in claims and legal actions arising in the ordinary course of business. We believe that the ultimate disposition of these matters will not have a material adverse effect on our financial position and results of operations.

**Note 12 Equity**

As of March 31, 2010, our authorized capital consisted of 1,000 shares of preferred stock (discussed below) and 100,000 shares of Class A common stock, \$10 par value per share. There were no issuances of common stock during the three year period ended March 31, 2010.

*Redeemable Preferred Stock*

On September 30, 2004, Denham purchased 1,000 shares of our Series A Preferred Stock for \$3.0 million. The preferred shares have a par value of \$10 per share, and authorized shares total 1,000. In June 2005, we redeemed the preferred shares at the stated value plus accrued dividends. In August 2005, we reissued the preferred shares under the same terms and conditions as the original issuance. The preferred shares are redeemable at \$3,000 per share plus dividends in arrears at the option of the shareholder with 30 days notice to the Company. We may redeem the preferred shares at \$3,000 per share plus accrued dividends with 20 days written notice to the shareholder. These preferred shares have been separately classified in the consolidated statement of financial position at their purchased amount which is also the redeemable cost at March 31, 2010 and 2009.

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**NGL SUPPLY, INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements (Continued)**  
**March 31, 2010, 2009 and 2008**

Dividends are payable when declared by our Board of Directors, but are cumulative and calculated each quarter end based on the three-month LIBOR rate plus 400 basis points. For the years ended March 31, 2010, 2009 and 2008, \$132,000, \$189,000 and \$257,000 of dividends were accrued and paid, respectively. No arrearages existed at March 31, 2010 and 2009.

On May 17, 2010, we redeemed all of the preferred stock at the stated value plus accrued dividends for approximately \$3.017 million.

*Share-based Compensation*

We have granted stock options to various of our employees. The options vest three years from issuance and are exercisable for five years following vesting. The options are not eligible for any common stock dividends until exercised. As of March 31, 2010 and 2009, there were 750 options outstanding with a weighted average exercise price of \$2,200 and a weighted average remaining contractual life of approximately 2.5 and 3.5 years, respectively. There was no activity related to the options during the years ended March 31, 2010, 2009 and 2008. These options were exercised or redeemed subsequent to March 31, 2010.

The fair value of these options was estimated at the date of grant using the Black Scholes-Merton option pricing model using the following assumptions: risk-free interest rate of 3.55%; dividend yield of 0%; calculated volatility of 30.56%; and the expected term of the options of 5.5 years. We will issue new shares upon exercise of the options.

No share-based compensation expense was recorded during the year ended March 31, 2010. For the year ended March 31, 2009 and 2008, compensation expense charged against income for stock options was \$97,000 and \$194,000, and no stock-based compensation cost was capitalized. There was no amount of remaining unvested compensation expense and no unvested shares at March 31, 2010 and 2009.

*Common Stock Dividends*

On June 30, 2010, we paid a dividend to the owners of our common stock of \$7.0 million.

**Note 13 Fair Value of Financial Instruments**

For cash and cash equivalents, accounts receivable, accounts payable, accrued expenses and other payables, the carrying value is a reasonable estimate of fair value, primarily because of the short-term nature of the instruments (considered to be Level 1). Our long-term debt carrying amount is also a reasonable estimate of fair value because of the variable interest rates on substantially all of such debt. The fair value recorded amounts of our derivative financial instrument contracts are measured based upon the notional amounts, future prices, and maturity dates (Level 2). We had no assets or liabilities measured at fair value based on a Level 3 valuation.

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**NGL SUPPLY, INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements (Continued)**  
**March 31, 2010, 2009 and 2008**

The following table summarizes the reported value of our assets and liabilities which are carried at fair value as of the dates indicated based on inputs used to derive the fair values:

Description	Fair Value Measurements March 31, 2010			Fair Value Measurements March 31, 2009		
	Total	Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Total	Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)
(in thousands)						
<b>Assets:</b>						
Commodity derivatives (included in "other current assets")	\$ 576	\$	\$ 576	\$	\$	\$
Product exchanges	2,746		2,746	1,202		1,202
<b>Liabilities:</b>						
Product exchanges	1,005		1,005	282		282

*Derivative Financial Instruments*

During 2010, 2009 and 2008, we entered into natural gas liquids swaps and other derivative financial instruments to help reduce our exposure to variability in future commodity prices, none of which were designated as hedging transactions. The net fair value of our derivative financial instrument contracts at March 31, 2010 was a net asset of \$576,000 and is recorded in other current assets on the consolidated balance sheets. There were no significant open derivative financial instrument contracts at March 31, 2009 and 2008. The following table sets forth our open derivative financial instrument contracts positions at March 31, 2010:

Underlying	Period	Total Notional Units	Type	Price (\$/unit)
Natural Gas Liquids				
Propane:				
OPIS Mt. Belvieu	Apr - June 2010	75,000 BBL	Swap	1.2650
OPIS Conway	Apr - June 2010	60,000 BBL	Swap	1.0950
OPIS Conway	Apr - June 2010	45,000 BBL	Swap	1.1600
OPIS Conway	Apr - June 2010	60,000 BBL	Swap	1.1400
OPIS Conway	July - Sept 2010	30,000 BBL	Swap	1.2100
OPIS Mt. Belvieu	July - Sept 2010	45,000 BBL	Swap	1.2000
OPIS Mt. Belvieu	Oct - Dec 2010	75,000 BBL	Swap	1.2975
Watkins Glen TEP	Apr 2010	26,619 Gal	Physical Cap	1.2144
Watkins Glen TEP	Apr - May 2010	40,000 Gal	Physical Cap	1.2294

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**NGL SUPPLY, INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements (Continued)**  
**March 31, 2010, 2009 and 2008**

We recorded the following net gains from our commodity derivatives during the years ended March 31, 2010, 2009 and 2008:

	2010	2009	2008
	(in thousands)		
Commodity contracts			
Unrealized gain (loss)	\$ 563	\$ (17)	\$ (36)
Realized gain	690	708	465
Total	\$ 1,253	\$ 691	\$ 429

These gains are categorized as cost of sales of our wholesale supply and marketing segment in the consolidated statements of operations.

*Credit Risk*

We maintain credit policies with regard to our counterparties on the derivative financial instruments that we believe minimize our overall credit risk, including an evaluation of potential counterparties' financial condition (including credit ratings), collateral requirements under certain circumstances and the use of standardized agreements, which allow for netting of positive and negative exposure associated with a single counterparty.

Our counterparties consist primarily of financial institutions and major energy companies. This concentration of counterparties may impact our overall exposure to credit risk, either positively or negatively, in that the counterparties may be similarly affected by changes in economic, regulatory or other conditions. Based on our policies, exposures, credit and other reserves, we do not anticipate a material adverse effect on our financial position or results of operations as a result of counterparty performance.

For financial instruments, failure of a counterparty to perform on a contract could result in our inability to realize amounts that have been recorded on our consolidated statements of financial position and recognized in our net income.

*Interest Rate Risk*

The following tables provide information as to our interest rate risk on our long-term debt as of March 31, 2010 and 2009:

As of March 31, 2010	2011	2012	2013	2014	2015	Total	Fair Value
	(in thousands)						
Variable Rate Debt	\$ 6,981	\$	\$	\$	\$	\$ 6,981	\$ 6,981
Average Interest Rate	3.67%						

As of March 31, 2009	2010	2011	2012	2013	2014	Total	Fair Value
	(in thousands)						
Variable Rate Debt	\$	\$ 6,981	\$	\$	\$	\$ 6,981	\$ 6,981
Average Interest Rate		5.33%					

As of March 31, 2010, a 1% change in the average interest rate would result in a change of interest expense of approximately \$70,000.



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**NGL SUPPLY, INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements (Continued)**  
**March 31, 2010, 2009 and 2008**

**Note 14 Employee Benefits**

We sponsor a 401(k) defined contribution plan for the benefit of our employees. The plan allows eligible employees to contribute a portion of their income to such plan subject to limitations established by law. We may make discretionary contributions to the plan to be allocated to plan participants. For the years ended March 31, 2010, 2009 and 2008, we made contributions to the plan totaling \$227,000, \$262,000 and \$232,000.

**Note 15 Segment Information**

Our operations consist of three reportable segments: retail propane operations; wholesale supply and marketing; and midstream. Retail propane operations include propane sales to end users, the sale of propane-related parts and fittings, tank rentals and service work for propane-related equipment. Our wholesale supply and marketing operations include the distribution of propane and other natural gas liquids and marketing services to other users, retailers and resellers of propane and storage of propane for third parties. Our midstream segment consists of our terminal operations, the unloading, storage and loading of propane for third parties at our terminal facilities in Missouri, Illinois and Canada. All of our operations are located in the United States except for the terminal operations of Gateway in Canada. Intersegment sales by our wholesale supply and marketing segment are eliminated against cost of sales in consolidation. Revenues in our other segments are derived from transactions with external parties.

Our identifiable assets associated with each reportable segment include accounts receivable, inventories, product exchanges, property, plant and equipment, goodwill and intangible assets. Expenditures for property, plant and equipment are presented for each segment. The net asset/liability from price risk management, as reported in the accompanying consolidated statements of financial position, is primarily related to the wholesale supply and marketing segment.

We evaluate the performance of our operating segments based on gross margin and operating income, as indicated in the following tables and on the basis of EBITDA. Revenues, gross margin,

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**NGL SUPPLY, INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements (Continued)**  
**March 31, 2010, 2009 and 2008**

operating income, identifiable assets, long-lived assets and expenditures for property, plant and equipment for each of our reportable segments are presented below:

	Year Ended March 31,		
	2010	2009	2008
	(in thousands)		
Revenues:			
Retail propane			
Propane sales	\$ 25,076	\$ 28,518	\$ 17,065
Propane-related parts and fittings sales	622	587	382
Propane service and tank rental revenues	1,269	1,143	592
Wholesale supply and marketing			
Wholesale supply sales	727,008	730,474	853,488
Storage revenues	2,368	1,741	723
Midstream	4,103	3,259	3,055
Eliminations of intersegment wholesale supply sales	(24,940)	(30,731)	(41,048)
Total revenues	\$ 735,506	\$ 734,991	\$ 834,257
Gross Margin:			
Retail propane			
Propane sales	\$ 9,930	\$ 7,278	\$ 4,332
Propane-related parts and fittings sales	165	215	145
Propane services and tank rentals	1,269	1,143	592
Wholesale supply and marketing			
Wholesale supply sales	9,923	15,359	7,786
Storage	2,368	1,742	723
Midstream	3,636	2,836	2,658
Total gross margin	\$ 27,291	\$ 28,573	\$ 16,236
Depreciation and Amortization:			
Retail propane	\$ 1,726	\$ 1,453	\$ 663
Wholesale supply and marketing	220	200	188
Midstream	835	837	853
Total depreciation and amortization	\$ 2,781	\$ 2,490	\$ 1,704
Operating Income (Loss):			
Retail propane	\$ 1,391	\$ 525	\$ 825
Wholesale supply and marketing	6,912	10,531	2,852
Midstream	2,695	1,652	1,649
Corporate general and administrative expenses not allocated to segments	(4,337)	(3,277)	(2,164)
Total operating income	\$ 6,661	\$ 9,431	\$ 3,162
Other items not allocated by segment:			
Interest income	120	162	361
Interest expense	(668)	(1,621)	(1,061)
Other income (expense), net	(5)	152	70
Income tax provision	(2,478)	(3,255)	(948)
Net income	\$ 3,630	\$ 4,869	\$ 1,584

Geographic Information for our Midstream Segment						
Revenues:						
United States	\$	3,860	\$	3,017	\$	2,818
Canada		243		242		237
Gross margin:						
United States		3,393		2,594		2,421
Canada		243		242		237
Operating income (loss):						
United States		2,670		1,874		1,702
Canada		25		(222)		(53)
Additions to property, plant and equipment, including acquisitions (accrual basis):						
Retail propane	\$	2,588	\$	2,761	\$	5,633
Wholesale supply and marketing		102		22		68
Midstream				98		
Total	\$	2,690	\$	2,881	\$	5,701

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**NGL SUPPLY, INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements (Continued)**  
**March 31, 2010, 2009 and 2008**

	March 31, 2010	March 31, 2009
Year-End Information:		
Total assets:		
Retail propane	\$ 19,847	\$ 16,356
Wholesale supply and marketing	66,942	61,688
Midstream	20,491	20,672
Corporate	4,300	4,718
<b>Total</b>	<b>\$ 111,580</b>	<b>\$ 103,434</b>

Long-lived assets, net of depreciation and amortization, including goodwill and intangibles:

Retail propane	\$ 14,292	\$ 12,357
Wholesale supply and marketing	3,234	4,153
Midstream	19,210	19,675
Corporate	2,034	2,138
<b>Total</b>	<b>\$ 38,770</b>	<b>\$ 38,323</b>

**Note 16 Contribution of Company to New Entity and New Debt Agreement (unaudited)**

On October 14, 2010, our shareholders executed a business combination (the "Combination") with NGL Energy Partners LP (formerly Silverthorne Energy Partners LP, or "the Partnership") in which we were contributed to the Partnership in exchange for our shareholders receiving 1,272,288 limited partner common units of the Partnership and approximately \$40.0 million. The Partnership also issued 1,116,300 limited partner common units and \$410,000 to the shareholders of Hicks Oils & Hicksgas, Incorporated ("Hicksgas") in exchange for the propane-related assets and assumed liabilities of Hicksgas, and approximately \$15.5 million to the shareholders of Hicksgas Gifford ("Gifford") for essentially all of the assets and assumed liabilities of Gifford. In addition, the Partnership issued 549,043 limited partner common units to a group of investors (the "IEP Parties") for \$10.981 million. We have been deemed to be the acquiring entity in the Combination. Thus, our historical consolidated financial statements represent the historical consolidated financial statements of the Partnership.

In connection with the Combination, we had the following restructuring transactions:

- (i) We and our shareholders took action to cause all of our outstanding equity interests to be beneficially owned 100% directly and of record by our shareholders.
- (ii) We were converted into a Delaware limited liability company and our income tax liabilities were assumed by our shareholders.
- (iii) We terminated certain existing contracts relating to transfer restrictions and indemnification obligations.
- (iv) We caused two of our wholly-owned subsidiaries, Econo-Gas Supply, LLC, and NGL Supply Wholesale, LLC ("NGL Supply Wholesale") to merge, with NGL Supply Wholesale as the sole surviving company in the merger.

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(v)

We caused NGL Supply Retail Kansas, LLC, NGL Supply Retail Georgia, LLC and Propane Central, L.L.C. (each is our wholly-owned subsidiary) to be merged with and into a third wholly-owned subsidiary, NGL Supply Retail, LLC ("NGL Retail"), with NGL Retail as the sole surviving company in the mergers.

In addition on October 14, 2010, we, our subsidiaries and the other Partnership subsidiaries executed a \$200.0 million credit agreement, as amended through April 2011, (the "Credit Agreement") with a group of banks under which we are one of the designated Borrowers. The Credit Agreement provides for a total credit facility of \$200.0 million, represented by an acquisition revolving commitment of

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**NGL SUPPLY, INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements (Continued)**  
**March 31, 2010, 2009 and 2008**

\$150.0 million and a working capital revolving commitment of \$50.0 million. Borrowings under the working capital revolving commitment are subject to a defined borrowing base. The working capital revolving commitment allows for letter of credit advances of up to \$50.0 million and swingline loans of up to \$5.0 million.

The Credit Agreement has a final maturity on October 14, 2014. Once a year, between March 31 and September 30, the Borrowers must prepay the outstanding working capital revolving loans and collateralize outstanding letters of credit in order to reduce the total working capital borrowings to less than \$10.0 million for 30 consecutive days. In addition, until we complete an equity offering, on or before October 14 each year, the Borrowers must repay outstanding principal amounts of the acquisition revolving loans by at least \$7.5 million.

Borrowings under the Credit Agreement bear interest at designated interest rates depending on the computed "leverage ratio", which is the ratio of total indebtedness (as defined) at any determination date to consolidated EBITDA for the period of the four fiscal quarters most recently ended. Interest is payable quarterly. The initial interest rates vary at LIBOR plus 3%-3.75% for any LIBOR borrowings (or the bank's prime rate plus 2% to 2.75% for any base rate borrowings) depending upon the leverage ratio. The scheduled interest rate increments will be adjusted upward by 0.25% in the event the Partnership has not completed a public or private equity offering of at least \$50.0 million by April 14, 2011.

Substantially all of our assets are pledged as collateral under the Credit Agreement.

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**Report of Independent Certified Public Accountants**

Partners

NGL Energy Partners LP

We have audited the accompanying consolidated balance sheets of the businesses of Hicks Oils & Hickgas, Incorporated contributed to NGL Energy Partners LP (the "Company") as of June 30, 2010 and 2009, and the related consolidated statements of operations and changes in net investment and cash flows for each of the three years in the period ended June 30, 2010. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of June 30, 2010 and 2009, and the results of their operations and their cash flows for the each of the three years in the period ended June 30, 2010, in conformity with accounting principles generally accepted in the United States of America.

/s/ GRANT THORNTON LLP

Tulsa, Oklahoma  
February 11, 2011

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**THE BUSINESSES OF HICKS OILS & HICKSGAS,  
INCORPORATED CONTRIBUTED TO NGL ENERGY  
PARTNERS LP  
Consolidated Balance Sheets  
(U.S. Dollars in Thousands)**

	<b>Audited as of June 30,</b>		<b>Unaudited as of September 30,</b>
	<b>2010</b>	<b>2009</b>	<b>2010</b>
<b>ASSETS</b>			
<b>CURRENT ASSETS:</b>			
Accounts receivable, net of allowance for doubtful accounts of \$338 and \$369, respectively, and \$336	\$ 2,745	\$ 3,310	\$ 4,185
Accounts receivable from related parties	1,460	1,188	1,108
Inventories	3,432	3,288	4,830
Deferred income taxes	447	231	
Other current assets	2,053	1,997	2,601
Total current assets	10,137	10,014	12,724
PROPERTY, PLANT AND EQUIPMENT, net of accumulated depreciation of \$25,022 and \$24,537, respectively, and \$25,117	17,122	16,812	16,931
GOODWILL	2,093	2,093	2,093
INTANGIBLE ASSETS, net of accumulated amortization of \$912 and \$665, respectively, and \$973	1,100	1,347	1,039
Total assets	\$ 30,452	\$ 30,266	\$ 32,787
<b>LIABILITIES AND NET INVESTMENT</b>			
<b>CURRENT LIABILITIES:</b>			
Trade accounts payable	\$ 748	\$ 885	\$ 1,303
Accounts payable to related parties	1	2	2
Derivative financial instruments	344	418	
Accrued expenses and other payables	1,510	1,478	1,917
Deferred revenue and customer deposits	5,797	6,105	8,510
Total current liabilities	8,400	8,888	11,732
LONG-TERM DEBT	6,245	7,543	5,768
NON-CURRENT DEFERRED TAX LIABILITY	2,292	2,001	
DERIVATIVE FINANCIAL INSTRUMENTS	202	265	517
COMMITMENTS AND CONTINGENCIES			
NET INVESTMENT, per accompanying statements	13,313	11,569	14,770
Total liabilities and net investment	\$ 30,452	\$ 30,266	\$ 32,787

The accompanying notes are an integral part of these financial statements.



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**THE BUSINESSES OF HICKS OILS & HICKSGAS, INCORPORATED**  
**CONTRIBUTED TO NGL ENERGY PARTNERS LP**  
**Consolidated Statements of Operations and Changes in Net Investment**  
**(U.S. Dollars in Thousands)**

	<b>Audited For the Year Ended June 30,</b>			<b>Unaudited For the Three Months Ended September 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2010</b>	<b>2009</b>
<b>REVENUES</b>					
Propane sales	\$ 63,669	\$ 74,867	\$ 68,713	\$ 7,678	\$ 5,857
Other sales	5,250	5,398	4,198	1,517	1,498
Equipment rentals	2,134	2,082	2,127	509	499
Other operating revenues	1,258	1,241	1,095	457	466
Total Revenues	72,311	83,588	76,133	10,161	8,320
<b>COST OF SALES</b>					
Propane sales	45,551	54,151	52,202	5,320	3,219
Other	4,118	4,283	3,290	1,178	1,321
Total Cost of Sales	49,669	58,434	55,492	6,498	4,540
Gross Margin	22,642	25,154	20,641	3,663	3,780
<b>OPERATING COSTS AND EXPENSES</b>					
Operating and general and administrative	18,244	17,162	15,704	4,505	3,991
Depreciation and amortization	2,049	2,041	1,724	555	529
Operating Income (Loss)	2,349	5,951	3,213	(1,397)	(740)
<b>OTHER INCOME (EXPENSE)</b>					
Interest income	260	296	263	49	52
Interest expense	(540)	(1,130)	(1,001)	(124)	(189)
Income Before Income Taxes	2,069	5,117	2,475	(1,472)	(877)
PROVISION (BENEFIT) FOR INCOME TAXES	800	1,980	958	(1,845)	(340)
NET INCOME (LOSS)	1,269	3,137	1,517	373	(537)
NET INVESTMENT, beginning of period	11,569	11,301	12,553	13,313	11,569
Distributions (to) from owners	475	(2,869)	(2,769)	1,084	986
NET INVESTMENT, end of period	\$ 13,313	\$ 11,569	\$ 11,301	\$ 14,770	\$ 12,018

The accompanying notes are an integral part of these financial statements.

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**THE BUSINESSES OF HICKS OILS & HICKSGAS, INCORPORATED**  
**CONTRIBUTED TO NGL ENERGY PARTNERS LP**  
**Consolidated Statements of Cash Flows**  
**(U.S. Dollars in Thousands)**

	Audited For the Year Ended June 30,			Unaudited For the Three Months Ended September 30,	
	2010	2009	2008	2010	2009
<b>OPERATING ACTIVITIES:</b>					
Net income (loss)	\$ 1,269	\$ 3,137	\$ 1,517	\$ 373	\$ (537)
Adjustments to reconcile net income to net cash provided by operating activities:					
Depreciation and amortization	2,049	2,041	1,724	555	529
Provision for doubtful accounts	273	392	230	15	33
Deferred income tax provision (benefit)	76	609	167	(1,845)	(340)
Loss (gain) on sale of assets	118	(96)	(193)	13	
Changes in operating assets and liabilities, net of acquisitions					
Accounts receivable	20	1,145	(2,038)	(1,103)	221
Inventories	(144)	560	(411)	(813)	(864)
Other current assets	(56)	(998)	(755)	(1,134)	(1,601)
Accounts payable	(138)	(89)	(290)	557	561
Accrued expenses and other payables	32	(72)	150	407	(41)
Deferred revenue and customer deposits	(308)	541	3,800	2,713	1,786
Net cash provided by (used in) operating activities	3,191	7,170	3,901	(262)	(253)
<b>INVESTING ACTIVITIES:</b>					
Purchases of property and equipment	(2,597)	(2,105)	(613)	(416)	(480)
Acquisition of businesses			(4,573)		
Proceeds from sales of assets	366	1,081	314	71	82
Other	(136)				
Net cash used in investing activities	(2,367)	(1,024)	(4,872)	(345)	(398)
<b>FINANCING ACTIVITIES:</b>					
Advances of long-term debt	5,300	1,418	21,882		
Payments on long-term debt	(6,599)	(4,695)	(18,142)	(477)	(335)
Distributions from (to) owners	475	(2,869)	(2,769)	1,084	986
Net cash provided by (used in) financing activities	(824)	(6,146)	971	607	651
Net change in cash and cash equivalents					
Cash and cash equivalents, beginning of year					
Cash and cash equivalents, end of year	\$	\$	\$	\$	\$

The accompanying notes are an integral part of these financial statements.

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**Note 1 Formation Transaction and Nature of Operations**

Hicksgas, LLC was formed in October 2010 by Hicks Oils & Hicksgas, Incorporated ("Hicksgas") through a series of transactions, as detailed below, to contribute the propane and propane-related assets and operations of Hicksgas ("the Company") to NGL Energy Partners LP ("NGL Energy"). The accompanying consolidated financial statements present the historical financial position and results of operations of the propane assets contributed to, and the liabilities assumed by, NGL Energy that were previously owned by Hicksgas. The Company's assets and operations are located in Illinois and Indiana, and consist primarily of the retail and wholesale distribution of propane and related activities.

The transactions executed by Hicksgas to effect the contribution to NGL Energy are as follows:

- i. On July 1, 2010, Hicksgas elected S corporation status, and subsequently formed a new, wholly owned subsidiary, Hicksgas, LLC and contributed to it all of Hicksgas' rights, title and interest in and to its propane operations. Hicksgas, LLC assumed and agreed to timely discharge certain of Hicksgas' liabilities (including liabilities and obligations under environmental laws).
- ii. Subsidiaries of Hicksgas owning certain specified real property distributed all of their subsidiaries' rights, title and interest in and to such real property to Hicksgas. Hicksgas assumed and agreed to discharge all liabilities and obligations of these subsidiaries related to the ownership of or arising from the contributed assets (including liabilities and obligations under environmental laws), in each case, whether known or unknown, contingent or fixed, asserted or unasserted.
- iii. The subsidiaries of Hicksgas, other than Hicksgas, LLC and certain excluded subsidiaries were merged with Hicksgas, LLC, with Hicksgas, LLC as the sole surviving company in the merger.
- iv. Hicksgas paid and retired (or caused to be paid and retired) certain Hicksgas promissory notes and caused all encumbrances thereunder to be released.

Following the completion of the above transactions, (a) Hicksgas, LLC was a Delaware limited liability company wholly-owned by Hicksgas and (b) each of the subsidiaries of Hicksgas (other than Hicksgas, LLC and certain excluded subsidiaries) ceased to exist because of their merger with and into Hicksgas, LLC.

Hicksgas then contributed to NGL Energy, free and clear of any encumbrances (other than restrictions under applicable securities law), all right, title and interest in and to 100% of the membership interests in Hicksgas, LLC, as a capital contribution in exchange for limited partner common units of NGL Energy and approximately \$410,000.

**Note 2 Summary of Significant Accounting Policies**

*Basis of Presentation*

The accompanying consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and reflect the assets, liabilities and operations of the businesses sold to NGL Energy. All significant intercompany transactions have been eliminated.

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All information contained herein related to the three months ended September 30, 2010 and 2009 is unaudited. The unaudited interim financial information has been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information. The interim consolidated financial statements include all adjustments considered necessary for a fair presentation of the financial position and results of operations for the interim periods presented. Such adjustments consist only of normal recurring items, unless otherwise disclosed herein. The Company believes that the disclosures made are adequate to make the information not misleading. Due to the seasonal nature of the Company's operations, the results of operations for interim periods are not necessarily indicative of the results to be expected for a full year.

*Estimates*

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and costs. These estimates are based on management's knowledge of current events, historical experience and various other assumptions that they believe to be reasonable under the circumstances.

Critical estimates made in the preparation of these consolidated financial statements include the collectability of accounts receivable; the recoverability of inventories; useful lives and recoverability of property, plant equipment and amortized intangible assets; fair values of assets acquired in business combinations; the impairment of goodwill; the valuation of derivative financial instruments; accruals for various commitments and contingencies; and allocations of corporate level expenses, among others. Although management believes these estimates are reasonable, actual results could differ from the estimates.

*Fair Value Measurements*

The Company applies fair value measurements to certain assets and liabilities, principally derivative financial instruments and assets and liabilities acquired in a business combination. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the measurement date. Fair value should be based upon assumptions that market participants would use when pricing an asset or liability, including assumptions about risk and risks inherent in valuation techniques and inputs to valuations. This includes not only the credit standing of counterparties and credit enhancements but also the impact of the Company's own nonperformance risk on its liabilities. Fair value measurements assume that the transaction occurs in the principal market for the asset or liability or in the absence of a principal market, the most advantageous market for the asset or liability (the market for which the reporting entity would be able to maximize the amount received or minimize the amount paid).

Management uses the following fair value hierarchy, which prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

Level 1 Quoted prices (unadjusted) in active markets for identical assets and liabilities that the Company has the ability to access at the measurement date.

Level 2 Inputs other than quoted prices included within Level 1 that are either directly or indirectly observable for the asset or liability, including quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, inputs other than quoted prices that are observable for the asset or liability, and inputs

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that are derived from observable market data by correlation or other means. The Company's derivative financial instruments are valued based on a Level 2 valuation.

Level 3 Unobservable inputs for the asset or liability including situations where there is little, if any, market activity for the asset or liability. The Company did not have any assets or liabilities measured at fair value categorized as Level 3 at June 30, 2010 or 2009.

The fair value hierarchy gives the highest priority to quoted prices in active markets (Level 1) and the lowest priority to unobservable data (Level 3). In some cases, the inputs to measure fair value might fall into different levels of the fair value hierarchy. The lowest level input that is significant to a fair value measurement in its entirety determines the applicable level in the fair value hierarchy. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment, considering factors specific to the asset or liability.

*Revenue Recognition*

The Company's revenue is primarily generated by the sale of propane, propane-related appliances, parts and fittings in the United States, rental of equipment and by services provided to its customers.

The Company accrues revenues from propane and propane-related sales at the time title to the product transfers to the purchaser, which typically occurs upon receipt of the product by the purchaser or installation of the appliance. The Company records service revenues at the time the service is performed and tank and other rentals over the term of the lease. The Company records product purchases at the time title to the product transfers to the Company, which typically occurs upon receipt of the product. The Company presents revenue-related taxes collected from customers and remitted to taxing authorities, principally sales and use taxes, on a net basis.

*Cost of Sales*

"Cost of Sales" includes all costs incurred to acquire propane, including the costs of purchasing, terminalling, and storing inventory prior to delivery to the customer, as well as any costs related to the sale of propane appliances and equipment. Cost of sales does not include any depreciation or amortization of property, plant and equipment or intangible assets. Depreciation and amortization is separately classified in the statements of operations.

*Operating and General and Administrative Expenses*

"Operating and General and Administrative Expenses" include costs of personnel, vehicles, delivery, handling, plants, district offices, selling, marketing, credit and collections and other functions related to the retail distribution of propane and related equipment and supplies and the direct and allocated expenses of personnel, executives, corporate office locations and other functions related to centralized corporate and overhead activities (see Note 9).

*Advertising Costs*

The Company expenses advertising costs as incurred. The total advertising expense for the years ended June 30, 2010, 2009, and 2008 was \$456,000, \$347,000, and \$374,000, respectively, and \$106,000 and \$114,000 for the three months ended September 30, 2010 and 2009, respectively.

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*Cash and Cash Equivalents*

The accompanying consolidated financial statements do not include cash and cash equivalents as such assets were not included in the assets sold to NGL Energy. In the statements of cash flows, the net change in cash from the Company's operating, investing and financing activities are reflected as "distributions," resulting in no ending cash balances.

Supplemental cash flow information:

	<b>Year Ended June 30,</b>			<b>Three Months Ended September 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2010</b>	<b>2009</b>
	<b>(in thousands)</b>				
<b>SUPPLEMENTAL CASH FLOW INFORMATION:</b>					
Interest paid	\$ 677	\$ 689	\$ 695	\$ 153	\$ 173
Income taxes paid	\$ 58	\$ 2,944	\$ 1,120	\$	\$

*Accounts Receivable and Concentration of Credit Risk*

The Company grants credit to customers for the purchase of propane and propane-related products. Accounts receivable are uncollateralized customer obligations due under normal trade terms. Accounts receivable are stated at the amount billed to the customer plus any accrued and unpaid interest. Unpaid and past due accounts receivable bear interest at 1.5% per month.

The carrying amount of accounts receivable is reduced by a valuation allowance that reflects management's best estimate of the uncollectible amounts. Management individually reviews past due accounts receivable balances and provides a specific reserve based on an assessment of current customer creditworthiness. Management also provides a general allowance amount for accounts not currently delinquent.

Changes in the allowance for doubtful accounts during the periods indicated are as follows:

	<b>Year Ended June 30,</b>			<b>Three Months Ended September 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2010</b>	
	<b>(in thousands)</b>				
Allowance for doubtful accounts, beginning of period	\$ 369	\$ 237	\$ 198	\$	338
Bad debt provision	273	392	230		15
Write off of uncollectible accounts	(304)	(260)	(191)		(17)
Allowance for doubtful accounts, end of period	\$ 338	\$ 369	\$ 237	\$	336

For the years ended June 30, 2010, 2009 and 2008, no individual customer accounted for more than 10% of the Company's revenues. Four of the Company's suppliers provided approximately 75% of its propane purchases during the year ended June 30, 2010. The Company believes that its arrangements with these suppliers enables it to purchase most of its requirements at market prices and ensure adequate supply.

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*Inventories*

The Company's inventories consist primarily of propane and propane-related parts and merchandise. Propane inventory is carried at cost with cost determined using the last-in, first-out (LIFO) method. Cost includes the cost of transportation and storage. All other inventories are carried at the lower of cost or market, with cost determined using the first-in, first-out method (FIFO).

Inventories consisted of the following:

	<b>As of June 30,</b>		<b>As of September 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	
	<b>(in thousands)</b>			
Propane	\$ 733	\$ 1,023	\$	1,675
Parts and merchandise	2,257	1,920		2,771
Other	442	345		384
 Total	 \$ 3,432	 \$ 3,288	 \$	 4,830

If the Company's propane inventories had been valued by the FIFO method instead of the LIFO method, inventories would have been \$457,000 and \$325,000 higher at June 30, 2010 and 2009, respectively, and \$624,000 at September 30, 2010. There were no significant LIFO liquidations during any of the periods presented.

*Other Current Assets*

Included in Other Current Assets at June 30, 2010 and 2009 and at September 30, 2010 are the following:

	<b>As of June 30,</b>		<b>As of September 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	
	<b>(in thousands)</b>			
Deposits to propane suppliers	\$ 1,759	\$ 820	\$	1,174
Prepayments of taxes	194	1,143		
Other prepaid expenses	100	34		1,427
 Total	 \$ 2,053	 \$ 1,997	 \$	 2,601

*Property, Plant and Equipment, Depreciation and Impairments*

Property, plant and equipment are stated at cost, less accumulated depreciation. Acquisitions and improvements are capitalized, and maintenance and repairs are expensed as incurred. When the Company disposes of assets, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is included in other operating revenues. The Company computes depreciation expense primarily using the straight-line method over the useful lives of the assets (see Note 5).

The Company evaluates the carrying value of its long-lived assets for potential impairment when events and circumstances warrant such a review. A long-lived asset is considered impaired when the anticipated undiscounted future cash flows from a logical grouping of assets is less than its carrying value. In that event, a loss is recognized equal to the amount by which the carrying value exceeds the





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fair value of the assets. No impairments of long-lived assets were recorded for the years ended June 30, 2010, 2009 and 2008 or the three months ended September 30, 2010.

*Goodwill*

Goodwill represents the excess of cost over the fair value of net assets of acquired businesses. There were no changes to recorded goodwill during the years ended June 30, 2010 and 2009 or during the three months ended September 30, 2010.

The Company evaluates goodwill and indefinite-lived intangible assets for impairment annually or when events or circumstances occur indicating that the assets might be impaired. The Company performs this impairment testing at year end.

The annual impairment assessment of goodwill is a two-step process:

In step 1 of the goodwill impairment test, the Company compares the fair value of the reporting unit with its carrying amount, including goodwill. If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is not considered impaired. If the carrying amount of a reporting unit exceeds its fair value, the Company performs the second step of the goodwill impairment test to measure the amount of impairment loss, if any.

In step 2 of the goodwill impairment test, the Company compares the implied fair value of reporting unit goodwill with the carrying amount of that goodwill. If the carrying amount of the reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess.

The Company utilizes the market approach in determining the fair value of its individual reporting units. The market approach considers forecasted discounted future cash flows and a terminal value which applies a market multiple to adjusted cash flows. Based upon this analysis, the Company concluded that the fair value of the reporting units exceeded their carrying values and therefore step 2 of goodwill impairment testing was not required.

Estimates and assumptions used to perform the impairment testing are inherently uncertain and can significantly affect the outcome of the impairment test. The estimates and assumptions used in the annual assessment for impairment of goodwill included market participant considerations and future forecasted operating results. Changes in operating results and other assumptions could materially affect these estimates.

*Intangible Assets*

The Company's identifiable intangible assets consist primarily of significant contracts and arrangements acquired in business combinations, primarily customer relationships and covenants not to compete. The Company capitalizes acquired intangible assets if the benefit of the intangible asset is obtained through contractual or other legal rights, or if the intangible asset can be sold, transferred, licensed, rented or exchanged, regardless of an intent to do so.

Intangible assets with estimable useful lives are amortized over their respective useful lives on a straight-line basis to their estimated residual values, and reviewed for impairment annually (see Note 6).

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*Asset Retirement Obligations*

The Company records the fair value of an asset retirement obligation as a liability in the period a legal obligation for the retirement of tangible long-lived assets is incurred, typically at the time the assets are placed into service if the Company can reasonably estimate such retirement obligations. A corresponding asset is also recorded and depreciated over the life of the asset. After the initial measurement, the Company also recognizes changes in the amount of the liability resulting from the passage of time and revisions to either the timing or amount of estimated cash flows.

The Company has determined that it is obligated by contractual requirements to remove facilities or perform other remediation upon retirement of certain assets. Determination of the amounts to be recognized is based upon numerous estimates and assumptions, including expected settlement dates, future retirement costs, future inflation rates and the credit-adjusted risk-free interest rates. However, the Company is not able to reasonably measure the fair value of the asset retirement obligations as of June 30, 2010, or 2009 or September 30, 2010 because the settlement dates were indeterminable. An asset retirement obligation will be recorded in the periods the Company can reasonably determine the settlement dates.

*Income Taxes*

Prior to the formation of the Company, as discussed in Note 1, Hicksgas filed a consolidated Federal income tax return and Illinois and Indiana income tax returns on an individual company basis. Hicksgas is no longer subject to federal and state tax examinations by the tax authorities for tax years ended before June 30, 2007.

In the accompanying consolidated statements of operations, income taxes are provided for the tax effects of transactions reported in the consolidated financial statements and consist of taxes currently due plus the change during the period in deferred tax assets and liabilities. Deferred income tax assets and liabilities are computed annually for differences between the financial statements and tax basis of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. No valuation allowance has been provided against the deferred tax assets.

Hicksgas followed the provisions of uncertain tax positions as addressed in FASB Accounting Standards Codification 740-10-65-1. Hicksgas recognized no increase in the liability for unrecognized tax benefits in the years ending June 30, 2010, 2009 or 2008. Hicksgas had no tax position at June 30, 2010, or 2009 for which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility. Hicksgas recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. No such interest or penalties were recognized during the periods presented. Hicksgas had no accruals for interest and penalties at June 30, 2010 or 2009.

Due to the election by Hicksgas for S Corporation status on July 1, 2010, (see Note 1), the recorded deferred tax assets and liabilities as of June 30, 2010 were reversed during the three months ended September 30, 2010. The Company's shareholders assumed the obligation for any recapture income taxes and built-in gain taxes. Therefore, as these obligations were not assumed by NGL Energy, the obligations, if any, are not reflected herein.

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*Derivative Instruments and Hedging Activities*

The Company uses commodity option contracts and swap agreements to reduce the risk of market price fluctuation on certain company-owned inventories, fixed price purchase commitments, and fixed price sales commitments. Under this risk management strategy, realized gains and losses on derivative instruments will typically offset losses or gains on the physical transaction once the product is sold. In addition, the Company has entered into interest rate swaps to reduce the risk of interest rate fluctuations. All of the Company's derivative instruments are reported on the statement of position at fair value. In the course of normal operations, the Company also routinely enters into contracts such as forward priced physical contracts for the purchase or sale of inventories that qualify for and are designated as normal purchase or normal sale contracts. Such contracts are exempted from the fair value accounting requirements and are accounted for at the time product is purchased or sold under the related contract. The Company does not use derivative instruments for speculative trading purposes.

The Company does not account for any of the derivative instruments purchased as hedges. Changes in the fair value of commodity-related derivative instruments that do not meet the normal purchase and normal sale exemption are recorded within cost of products sold as they occur. Changes in the value of the interest rate derivatives are included in interest expense. The fair value of commodity derivatives are included in inventory.

*Deferred Revenue and Customer Deposits*

The Company records customer advances on product purchases or prepayments of rentals as a liability in the consolidated balance sheets.

**Note 3 Recent Accounting Standards**

On July 1, 2009, the Financial Accounting Standards Board ("FASB") instituted a new referencing system, which codifies, but does not amend, previously existing nongovernmental GAAP. The *FASB Accounting Standards Codification* (the "Codification") is now the single authoritative source for GAAP. The Codification was intended to simplify user access to all authoritative GAAP by providing all authoritative literature in one place. Adoption of the Codification did not have a material impact on the Company's consolidated financial statements.

During fiscal 2010, the Company adopted the updated GAAP rules for subsequent events. Under this update, management is required to evaluate subsequent events through the date that the financial statements are available to be issued and to disclose the date through which subsequent events are evaluated. The adoption of this standard does not change the Company's practices with respect to evaluating, recording, and disclosing subsequent events; therefore, adoption of this update had no impact on the Company's consolidated balance sheets or results of operations.

**Note 4 Acquisitions**

On May 12, 2008, the Company acquired the retail propane business of Service Gas of Cortland, Inc. ("Service Gas"). The total purchase price of the acquisition was approximately \$4.6 million.

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The following table presents the allocation of the acquisition costs to the assets acquired and liabilities assumed based on their fair values at the date of the acquisitions:

Accounts receivable	\$ 532
Inventory	40
Property and equipment	2,542
Non-compete agreements (5-year life)	900
Customer relationships (15-year life)	389
Goodwill	170
<b>Total assets acquired</b>	<b>\$ 4,573</b>

The results of operations and related financial statements presented herein reflect the consummation of the acquisition of Service Gas for the period since acquisition through December 31, 2010. The purchase was made in order to expand the Company's retail propane business. The Company does not expect any of the goodwill related to the acquisition to be tax deductible. All goodwill acquired in the Service Gas transaction was allocated to the retail propane operating unit.

**Note 5 Property, Plant and Equipment**

Property, plant and equipment consist of the following:

	Estimated Useful Lives (Years)	As of June 30,		As of September 30,
		2010	2009	2010
(in thousands)				
Retail propane equipment, tanks and vehicles	5 - 15	\$ 33,299	\$ 33,060	\$ 33,188
Buildings and improvements	20 - 30	7,061	6,538	7,076
Land and other	N/A	1,784	1,751	1,784
		42,144	41,349	42,048
Less: Accumulated depreciation		25,022	24,537	25,117
Net property, plant and equipment		\$ 17,122	\$ 16,812	\$ 16,931

**Note 6 Intangible Assets**

Intangible assets (all amortizable) consist of the following:

	Estimated Useful Lives (Years)	As of June 30,		As of September 30,
		2010	2009	2010
(in thousands)				

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Customer relationships	15	\$	931	\$	931	\$	931
Non-compete agreements	5		1,081		1,081		1,081
Total intangible assets			2,012		2,012		2,012
Less: Accumulated amortization			912		665		973
Net intangible assets		\$	1,100	\$	1,347	\$	1,039

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Future amortization expense is estimated to be approximately \$242,000 per year for fiscal 2011-2012, \$160,000 in fiscal 2013, \$62,000 in fiscal 2014 and \$53,000 in fiscal 2015.

**Note 7 Long-Term Debt**

The Company's long-term debt consists of the following:

		Final Maturity Date	As of June 30,		As of September 30,
	Interest Rate		2010	2009	2010
(in thousands)					
Note payable to bank	Libor	2013	\$ 6,071	\$ 7,286	\$ 5,768
Revolving line of credit	Libor	2013			
Other notes payable, secured by various fixed assets	5.75% - 7.00%	2016	174	257	
Total notes payable			6,245	7,543	5,768
Current maturities of long-term debt					
Long-term debt net of current maturities			\$ 6,245	\$ 7,543	\$ 5,768

The Company has granted a security interest in all of its assets.

As of June 30, 2010, the Company has a revolving credit and term loan facility (the "Credit Agreement") of \$8.0 million, all of which was available. The Credit Agreement contains various restrictive covenants including (i) restrictions on the incurrence of additional indebtedness, and (ii) restrictions on certain liens, investments, guarantees, loans, advances, payments, mergers, consolidations, distributions, sales of assets and other transactions. The Credit Agreement also requires the Company to meet certain financial covenants including (a) leverage ratio, (b) fixed charge coverage ratio and (c) tangible net worth. Substantially all of the Company's long-term debt was paid and cancelled in connection with the contribution to NGL Energy using funds advanced under NGL Energy's credit facility. Therefore, such amounts are classified as long-term debt in the consolidated balance sheets.

The Company has an outstanding letter of credit in the amount of \$699,000 and \$681,000 as of June 30, 2010 and 2009, respectively (\$699,000 at September 30, 2010). The letter of credit expires each June 30 but is automatically extended unless cancelled 180 days in advance of the expiration date. The Company pays a monthly fee at an annual rate of 2.25 percent on the outstanding letter of credit balance.

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**Note 8 Income Taxes**

The provision for income taxes consists of the following. All of the Company's operations are located in the United States.

	<b>Audited For the Year Ended June 30,</b>			<b>Unaudited For the Three Months Ended September 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2010</b>	<b>2009</b>
	(in thousands)				
Current provision					
Federal	\$ 637	\$ 1,205	\$ 695	\$	\$
State	88	166	96		
Deferred provision					
Federal	66	535	147		(297)
State	9	74	20		(43)
Reversal of deferred tax liability				(1,845)	
Total income tax provision (benefit)	\$ 800	\$ 1,980	\$ 958	\$ (1,845)	\$ (340)

The Company's effective tax rate differs from the Federal statutory rate due primarily to the effect of state income taxes.

**Note 9 Related Party Transactions**

The Hicksgas shareholders also have controlling interests in various other related companies which are not included in these consolidated financial statements. The Company makes sales of propane and propane delivery vehicles to related companies and charges corporate operating and general and administrative expenses to related parties.

A summary of the related party balances at period end and activities for the periods included in these consolidated financial statements is as follows:

	<b>Audited For the Year Ended June 30,</b>			<b>Unaudited For the Three Months Ended September 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2010</b>	<b>2009</b>
	(in thousands)				
Accounts receivable	\$ 1,460	\$ 1,188	\$ 1,240	\$ 1,108	\$ 844
Accounts payable	1	2	2	2	9
Sales	11,938	13,176	15,371	1,699	7,381
General and administrative expense	1,453	1,363	1,381	572	740
Rent expense	25	25	25	6	6

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**THE BUSINESSES OF HICKS OILS & HICKSGAS, INCORPORATED  
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and For the Three Months Ended September 30, 2010 and 2009 (unaudited)**

**Note 10 Commitments and Contingencies**

*Environmental Matters*

The Company's operations are subject to extensive Federal, state and local environmental laws and regulations that could require expenditures for remediation of operating facilities. Although management believes the Company's operations are in substantial compliance with applicable environmental laws and regulations, risks of additional costs and liabilities are inherent in the propane distribution, terminal and storage business, and there can be no assurance that significant costs and liabilities will not be incurred. Moreover, it is possible that other developments, such as increasingly stringent environmental laws, regulations and enforcement policies thereunder, and claims for damages to property or persons resulting from the operations or prior operations, could result in substantial costs and liabilities. Accordingly, the Company has adopted policies, practices and procedures in the areas of pollution control, product safety, occupational health, and the handling, storage, use, and disposal of hazardous materials to prevent material environmental or other damage, and to limit the financial liability, which could result from such events. However, some risk of environmental or other damage is inherent in the Company's business.

*Sales and Purchase Contracts*

The Company has entered into sales and purchase contracts for propane to be delivered in future periods. These contracts require that the parties physically settle the transactions with propane inventory. At June 30, 2010, the Company had outstanding sales contracts of approximately \$9.8 million and outstanding purchase contracts of approximately \$15.1 million. These contracts have terms that expire at various dates through March 2011.

*Litigation*

The Company is involved in claims and legal actions arising in the ordinary course of business. Management believes that the ultimate disposition of these matters will not have a material adverse effect on the Company's financial position and results of operations.

**Note 11 Fair Value of Financial Instruments**

For cash and cash equivalents, accounts receivable, accounts payable, accrued expenses and other payables and long-term debt, the carrying value is a reasonable estimate of fair value, primarily because of the short-term nature of the instruments or the varying interest rates (considered to be Level 1).

The Company has entered into two interest rate swap agreements to hedge the risk of interest rate fluctuations on its long term debt. These agreements convert a portion of the Company's floating rate bank debt into fixed rate debt on notional amounts of \$4.0 million and \$8.5 million and end on March 14, 2011 and June 30, 2013, respectively. The notional amounts of derivative instruments do not represent actual amounts exchanged between the parties, but instead represent amounts on which the contracts are based. The floating interest rate payments under these swaps are based on three-month LIBOR rates.

The Company, in order to hedge the risk of propane price fluctuations, enters into propane put and call option contracts as well as swap agreements.



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These derivative financial instruments are recorded at fair value. The Company does not account for the derivative financial instruments as hedges. The fair value of the Company's derivative instruments as of June 30, 2010 and 2009 (all Level 2 fair value measurements) is as follows:

Type of Contract	Assets					Liabilities				
	Balance Sheet Location	Fair Value			Balance Sheet Location	Fair Value				
		June 30,		September 30,		June 30,		September 30,		
		2010	2009	2010		2010	2009	2010		
(in thousands)										
Commodity contracts	Inventory	\$ (72)	\$ 94	\$ 28	N/A	\$	\$	\$		
Interest rate contracts					Derivative Financial Instruments					
	N/A				Long-term	202	265	517		
Interest rate contracts					Derivative Financial Instruments					
	N/A				Short-term	344	418			
Total derivatives		\$ (72)	\$ 94	\$ 28		\$ 546	\$ 683	\$ 517		

Gains (losses) recognized on derivative financial instruments for the years ended June 30, 2010, 2009 and 2008 and the three months ended September 30, 2010 and 2009 are as follows:

Derivatives not designated as hedging instruments	Recognized in	Year Ended June 30,			Three Months Ended September 30,	
		2010	2009	2008	2010	2009
		(in thousands)				
Interest rate contracts	Interest expense	\$ 137	\$ (441)	\$ (306)	\$ 29	\$ (16)
Commodity contracts	Cost of sales	593	(459)	168	56	177
Total		\$ 730	\$ (900)	\$ (138)	\$ 85	\$ 161

**Note 12 Employee Benefits**

The Company sponsors a 401(k) defined contribution plan for the benefit of its employees. The plan allows eligible employees to contribute a portion of their income to such plan subject to limitations established by law. The Company may make discretionary contributions to the plan to be allocated to plan participants. For the years ended June 30, 2010, 2009, and 2008, the Company recorded expenses of \$124,000, \$120,000 and \$111,000, respectively, (\$28,000 and \$27,000 for the three months ended September 30, 2010 and 2009, respectively).

The Company also has a shared-funded plan for group health insurance benefits. Under the Plan, the Company is responsible for actual claims up to an individual stop-loss limit of \$100,000 for the years ended June 30, 2010 and 2009. An estimated liability for incurred but unreported claims of \$361,000 and \$426,000 as of June 30, 2010, and 2009, respectively, and \$255,000 as of September 30, 2010 is included in the consolidated balance sheets.

**Note 13 Subsequent Events**

Management has evaluated subsequent events through February 11, 2011.

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**Report of Independent Certified Public Accountants**

Partners  
NGL Energy Partners LP

We have audited the accompanying consolidated balance sheets of the businesses of Hicksgas Gifford, Inc. sold to NGL Energy Partners LP (the "Company") as of December 31, 2009 and 2008, and the related consolidated statements of operations and changes in net investment and cash flows for each of the three years in the period ended December 31, 2009. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2009 and 2008, and the results of their operations and their cash flows for the each of the three years in the period ended December 31, 2009, in conformity with accounting principles generally accepted in the United States of America.

/s/ GRANT THORNTON LLP

Tulsa, Oklahoma  
February 11, 2011

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**THE BUSINESSES OF HICKSGAS GIFFORD, INC.  
SOLD TO NGL ENERGY PARTNERS LP  
Consolidated Balance Sheets  
(U.S. Dollars in Thousands)**

	<b>Audited as of December 31,</b>		<b>Unaudited as of</b>
	<b>2009</b>	<b>2008</b>	<b>September 30, 2010</b>
<b>ASSETS</b>			
<b>CURRENT ASSETS:</b>			
Accounts receivable, net of allowance for doubtful accounts of \$151 and \$166, respectively, and \$138	\$ 1,749	\$ 2,289	\$ 1,056
Accounts receivable from related parties	38	193	2
Inventories	866	714	1,013
Other current assets	47	9	3
Total current assets	2,700	3,205	2,074
PROPERTY, PLANT AND EQUIPMENT, net of accumulated depreciation of \$7,553 and \$7,572, respectively, and \$7,568	3,982	3,939	4,108
GOODWILL	457	457	457
INTANGIBLE ASSETS, net of accumulated amortization of \$250 and \$218, respectively, and \$273	293	325	270
Total assets	\$ 7,432	\$ 7,926	\$ 6,909
<b>LIABILITIES AND NET INVESTMENT</b>			
<b>CURRENT LIABILITIES:</b>			
Trade accounts payable	\$ 65	\$ 130	\$ 77
Accounts payable to related parties	2,434	2,179	1,395
Accrued expenses and other payables	333	423	390
Deferred revenue and customer deposits	2,561	2,869	3,553
Total current liabilities	5,393	5,601	5,415
<b>COMMITMENTS AND CONTINGENCIES</b>			
NET INVESTMENT	2,039	2,325	1,494
Total liabilities and net investment	\$ 7,432	\$ 7,926	\$ 6,909

The accompanying notes are an integral part of these consolidated financial statements.

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**THE BUSINESSES OF HICKSGAS GIFFORD, INC.  
SOLD TO NGL ENERGY PARTNERS LP**  
**Consolidated Statements of Operations and Changes in Net Investment**  
**(U.S. Dollars in Thousands)**

	<b>Audited For The Year Ended December 31,</b>			<b>Unaudited For The Nine Months Ended September 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2010</b>	<b>2009</b>
<b>REVENUES:</b>					
Propane sales	\$ 18,160	\$ 22,448	\$ 17,423	\$ 10,942	\$ 11,877
Equipment rentals	1,091	1,134	1,086	855	847
Other operating revenues	526	497	398	440	351
Total Revenues	19,777	24,079	18,907	12,237	13,075
<b>COST OF SALES:</b>					
Propane sales	11,714	15,184	12,220	7,136	7,169
Other	512	450	422	376	366
Total Cost of Sales	12,226	15,634	12,642	7,512	7,535
Gross Margin	7,551	8,445	6,265	4,725	5,540
<b>OPERATING COSTS AND EXPENSES:</b>					
Operating and general and administrative	4,871	4,859	4,311	4,184	3,907
Depreciation and amortization	545	574	630	236	257
Operating Income	2,135	3,012	1,324	305	1,376
<b>OTHER INCOME (EXPENSE):</b>					
Interest income	101	142	103	75	86
Interest expense	(2)	(6)	(12)	(5)	
Other, net	34	49	30	21	24
Net Income	2,268	3,197	1,445	396	1,486
Net Investment, beginning of period	2,325	3,042	3,332	2,039	2,325
Distributions to parent	(2,554)	(3,914)	(1,735)	(941)	(1,997)
Net Investment, end of period	\$ 2,039	\$ 2,325	\$ 3,042	\$ 1,494	\$ 1,814

The accompanying notes are an integral part of these consolidated financial statements.

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**THE BUSINESSES OF HICKSGAS GIFFORD, INC.**  
**SOLD TO NGL ENERGY PARTNERS LP**  
**Consolidated Statements of Cash Flows**  
**(U.S. Dollars in Thousands)**

	<b>Audited For The Year Ended December 31,</b>			<b>Unaudited For The Nine Months Ended September 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2010</b>	<b>2009</b>
<b>OPERATING ACTIVITIES:</b>					
Net income	\$ 2,268	\$ 3,197	\$ 1,445	\$ 396	\$ 1,486
Adjustments to reconcile net income to net cash provided by operating activities:					
Depreciation and amortization	545	574	630	236	257
(Gain) loss on sale of assets	(46)	(46)	2	(10)	
Changes in operating assets and liabilities					
Accounts receivable	695	(282)	(735)	729	1,367
Inventories	(152)	4	(72)	(147)	(103)
Other current assets	(38)		(1)	44	9
Accounts payable	190	3	801	(1,027)	(1,365)
Accrued expenses and other payables	(90)	122	33	57	(85)
Deferred revenue and customer deposits	(308)	685	5	992	684
Net cash provided by operating activities	3,064	4,257	2,108	1,270	2,250
<b>INVESTING ACTIVITIES:</b>					
Purchases of property, plant and equipment	(625)	(438)	(763)	(379)	(323)
Proceeds from sales of assets	115	96	110	50	70
Collections on notes receivable		219	500		
Net cash used in investing activities	(510)	(123)	(153)	(329)	(253)
<b>FINANCING ACTIVITIES:</b>					
Payments on long-term debt		(220)	(220)		
Distributions	(2,554)	(3,914)	(1,735)	(941)	(1,997)
Net cash used in financing activities	(2,554)	(4,134)	(1,955)	(941)	(1,997)
Net change in cash and cash equivalents					
Cash and cash equivalents, beginning of period					
Cash and cash equivalents, end of period	\$	\$	\$	\$	\$

The accompanying notes are an integral part of these consolidated financial statements.

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**Note 1 Nature of Operations and Organization**

Hicksgas Gifford, Inc. ("the Company") was organized in Indiana on December 4, 1975 as a retail propane business, with operations in Illinois and Indiana.

On October 14, 2010, the Company entered into an agreement to sell substantially all of its assets other than cash and cash equivalents to NGL Energy Partners LP ("NGL Energy") in exchange for \$15.5 million and assumption of all liabilities included in these consolidated financial statements (see Note 10).

**Note 2 Summary of Significant Accounting Policies**

*Basis of Presentation*

The accompanying consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP").

The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Pekin Hicksgas, Inc., associated with the businesses sold to NGL Energy. All significant intercompany transactions have been eliminated in consolidation.

All information contained herein related to the nine months ended September 30, 2010 and 2009 is unaudited. The unaudited interim financial information has been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim consolidated financial information. The consolidated interim financial statements include all adjustments considered necessary for a fair presentation of the financial position and results of operations for the interim periods presented. Such adjustments consist only of normal recurring items, unless otherwise disclosed herein. The Company believes that the disclosures made are adequate to make the information not misleading. Due to the seasonal nature of the Company's operations, the results of operations for interim periods are not necessarily indicative of the results to be expected for a full year.

*Estimates*

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and costs. These estimates are based on management's knowledge of current events, historical experience and various other assumptions that they believe to be reasonable under the circumstances.

Critical estimates made in the preparation of these financial statements include the collectability of accounts receivable; the recoverability of inventories; useful lives and recoverability of property, plant equipment and amortized intangible assets; the impairment of goodwill; accruals for various commitments and contingencies; and allocations of corporate level expenses, among others. Although management believes these estimates are reasonable, actual results could differ from the estimates.

*Fair Value Measurements*

The Company applies fair value measurements to certain assets and liabilities, principally assets and liabilities acquired in a business combination. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the measurement date. Fair value should be based upon assumptions that market participants would use when pricing an asset or liability, including assumptions about risk and risks





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inherent in valuation techniques and inputs to valuations. This includes not only the credit standing of counterparties and credit enhancements but also the impact of the Company's own nonperformance risk on its liabilities. Fair value measurements assume that the transaction occurs in the principal market for the asset or liability or in the absence of a principal market, the most advantageous market for the asset or liability (the market for which the reporting entity would be able to maximize the amount received or minimize the amount paid).

Management uses the following fair value hierarchy, which prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

Level 1 Quotes prices (unadjusted) in active markets for identical assets and liabilities that the Company has the ability to access at the measurement date.

Level 2 Inputs other than quoted prices included within Level 1 that are either directly or indirectly observable for the asset or liability, including quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, inputs other than quoted prices that are observable for the asset or liability, and inputs that are derived from observable market data by correlation or other means.

Level 3 Unobservable inputs for the asset or liability including situations where there is little, if any, market activity for the asset or liability. The Company did not have any assets or liabilities measured at fair value categorized as Level 3 at December 31, 2009 or 2008 or September 30, 2010.

The fair value hierarchy gives the highest priority to quoted prices in active markets (Level 1) and the lowest priority to unobservable data (Level 3). In some cases, the inputs to measure fair value might fall into different levels of the fair value hierarchy. The lowest level input that is significant to a fair value measurement in its entirety determines the applicable level in the fair value hierarchy. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment, considering factors specific to the asset or liability.

*Revenue Recognition*

The Company's revenue is primarily generated by the sale of propane, propane-related appliances, parts and fittings in the United States, rental of equipment and by services provided to its customers.

The Company accrues revenues from propane and propane-related sales at the time title to the product transfers to the purchaser, which typically occurs upon receipt of the product by the purchaser or installation of the appliance. The Company records service revenues at the time the service is performed and tank and other rentals over the term of the lease. The Company records product purchases at the time title to the product transfers to the Company, which typically occurs upon receipt of the product. Revenue-related taxes collected from customers and remitted to taxing authorities, principally sales and use taxes, are presented on a net basis.

*Cost of Sales*

"Cost of Sales" includes all costs incurred to acquire propane, including the costs of purchasing, terminalling, and storing inventory prior to delivery to the customer, as well as any costs related to the sale of propane appliances and equipment. Cost of sales does not include any depreciation or amortization of property, plant and equipment or intangible assets. Depreciation and amortization is separately classified in the consolidated statements of operations.



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*Operating and General and Administrative Expenses*

"Operating and General and Administrative Expenses" include costs of personnel, vehicles, delivery, handling, plants, district offices, selling, marketing, credit and collections and other functions related to the retail distribution of propane and related equipment and supplies and the direct and allocated expenses of personnel, executives, corporate office locations and other functions related to centralized corporate and overhead activities (see Note 9).

*Advertising Costs*

The Company expenses advertising costs as incurred. The total advertising expense for the years ended December 31, 2009, 2008 and 2007 was \$107,000, \$102,000, and \$89,000, respectively, (\$110,000 and \$80,000 for the nine months ended September 30, 2010 and 2009).

*Cash and Cash Equivalents*

The accompanying consolidated financial statements do not include cash and cash equivalents as such assets were not included in the assets sold to NGL Energy. In the statements of cash flows, the net change in cash from the Company's operating, investing and financing activities are reflected as "distributions," resulting in no ending cash balances and no changes in cash during the periods.

Supplemental cash flow information:

	<b>Years Ended December 31,</b>			<b>Nine Months Ended September 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2010</b>	<b>2009</b>
	<b>(in thousands)</b>				
Interest paid	\$ 2	\$ 10	\$ 16	\$	\$

*Accounts Receivable and Concentration of Credit Risk*

The Company grants credit to customers for the purchase of propane and propane-related products. Accounts receivable are uncollateralized customer obligations due under normal trade terms. Accounts receivable are stated at the amount billed to the customer plus any accrued and unpaid interest. Unpaid and past due accounts receivable bear interest at 1.5% per month.

The carrying amount of accounts receivable is reduced by a valuation allowance that reflects management's best estimate of the uncollectible amounts. Management individually reviews past due accounts receivable balances and provides a specific reserve based on an assessment of current customer creditworthiness. Management also provides a general allowance amount for accounts not currently delinquent.

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Changes in the allowance for doubtful accounts during the periods indicated are as follows:

	Year Ended December 31,			Nine Months Ended September 30,	
	2009	2008	2007	2010	
	(in thousands)				
Allowance for doubtful accounts, beginning of period	\$ 166	\$ 163	\$ 122	\$ 151	
Bad debt provision	164	100	55	12	
Write off of uncollectible accounts	(179)	(97)	(14)	(25)	
Allowance for doubtful accounts, end of period	\$ 151	\$ 166	\$ 163	\$ 138	

For the years ended December 31, 2009, 2008 and 2007, no individual customer accounted for more than 10% of the Company's consolidated revenues. The Company purchases 100% of its propane supply from a related party (see Note 9).

*Inventories*

The Company's inventories consist primarily of propane, valued at cost determined using the last-in, first-out (LIFO) method. Cost includes the cost of transportation and storage. Parts and supplies inventories are carried at the lower of cost or market, with cost determined using the first-in, first-out method (FIFO).

Inventories consisted of the following:

	December 31,		September 30,	
	2009	2008	2010	
	(in thousands)			
Propane	\$ 565	\$ 424	\$ 630	
Parts and supplies	301	290	383	
Total	\$ 866	\$ 714	\$ 1,013	

If the propane inventories had been valued by FIFO instead of the LIFO method, inventories would have been approximately \$158,000 and \$112,000 higher at December 31, 2009 and 2008, respectively, and \$119,000 higher at September 30, 2010. There were no significant LIFO liquidations during any of the periods presented.

*Property, Plant and Equipment, Depreciation and Impairments*

Property, plant and equipment are stated at cost, less accumulated depreciation. Acquisitions and improvements are capitalized, and maintenance and repairs are expensed as incurred. When the Company disposes of assets, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is included in other income. Depreciation expense is computed primarily using the straight-line method over the useful lives (see Note 4).

The Company evaluates the carrying value of its long-lived assets for potential impairment when events and circumstances warrant such a review. A long-lived asset is considered impaired when the anticipated undiscounted future cash flows from a logical grouping of assets is less than its carrying value. In that event, a loss is recognized equal to the amount by which the carrying value exceeds the



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fair value of the assets. No impairments of long-lived assets were recorded for the years ended December 31, 2009, 2008 and 2007 or the nine months ended September 30, 2010 and 2009.

*Intangible Assets*

The Company's identifiable intangible assets consist primarily of customer lists, customer relationships and covenants not to compete acquired in business combinations. The Company capitalizes acquired intangible assets if the benefit of the intangible asset is obtained through contractual or other legal rights, or if the intangible asset can be sold, transferred, licensed, rented or exchanged, regardless of an intent to do so.

Intangible assets with estimable useful lives are amortized over their respective useful lives on a straight-line basis to their estimated residual values, and reviewed for impairment annually (see Note 5).

*Goodwill*

Goodwill represents the excess of cost over the fair value of net assets of acquired businesses. There were no significant changes to recorded goodwill during the three year period ended December 31, 2009 or during the nine months ended September 30, 2010.

The Company evaluates goodwill for impairment annually or when events or circumstances occur indicating that goodwill might be impaired. The Company performs this impairment testing at year end.

The annual impairment assessment of goodwill is a two-step process:

In step 1 of the goodwill impairment test, the Company compares the fair value of the reporting unit with its carrying amount, including goodwill. If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is not considered impaired. If the carrying amount of a reporting unit exceeds its fair value, the Company performs the second step of the goodwill impairment test to measure the amount of impairment loss, if any.

In step 2 of the goodwill impairment test, the Company compares the implied fair value of reporting unit goodwill with the carrying amount of that goodwill. If the carrying amount of the reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess.

The Company utilizes the market approach in determining the fair value of the individual reporting units. The market approach considers forecasted discounted future cash flows and a terminal value which applies a market multiple to adjusted cash flows. Based upon this analysis, the Company concluded that the fair value of the reporting units exceeded their carrying values and therefore step 2 of goodwill impairment testing was not required for any of the periods presented.

Estimates and assumptions used to perform the impairment testing are inherently uncertain and can significantly affect the outcome of the impairment test. The estimates and assumptions we used in the annual assessment for impairment of goodwill included market participant considerations and future forecasted operating results. Changes in operating results and other assumptions could materially affect these estimates.

*Asset Retirement Obligations*

The Company records the fair value of an asset retirement obligation as a liability in the period a legal obligation for the retirement of tangible long-lived assets is incurred, typically at the time the



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assets are placed into service if the Company can reasonably estimate such retirement obligations. A corresponding asset is also recorded and depreciated over the life of the asset. After the initial measurement, the Company also recognizes changes in the amount of the liability resulting from the passage of time and revisions to either the timing or amount of estimated cash flows.

The Company has determined that it is obligated by contractual requirements to remove facilities or perform other remediation upon retirement of certain assets. Determination of the amounts to be recognized is based upon numerous estimates and assumptions, including expected settlement dates, future retirement costs, future inflation rates and the credit-adjusted risk-free interest rates. However, the Company is not able to reasonably measure the fair value of the asset retirement obligations as of December 31, 2009 or 2008 or September 30, 2010 because the settlement dates were indeterminable. An asset retirement obligation will be recorded in the periods the Company can reasonably determine the settlement dates.

*Income Taxes*

The Company, with the consent of its stockholders, elected to be taxed under the provisions of Subchapter S of the Internal Revenue Code on January 1, 2005. The stockholders are taxed individually on their proportionate share of the Company's taxable income. Therefore, no provision or liability for federal income taxes has been included in the accompanying consolidated financial statements. The Company files information income tax returns for U.S. and state jurisdictions. The Company is no longer subject to U.S. federal and state tax examinations by tax authorities for years prior to 2006 (see Note 10).

*Deferred Revenues and Customer Deposits*

The Company records customer advances and deposits on product purchases as a liability in the consolidated balance sheets.

**Note 3 Recent Accounting Standards**

On July 1, 2009, the Financial Accounting Standards Board ("FASB") instituted a new referencing system, which codifies, but does not amend, previously existing nongovernmental GAAP. The *FASB Accounting Standards Codification* (the "Codification") is now the single authoritative source for GAAP. The Codification was intended to simplify user access to all authoritative GAAP by providing all authoritative literature in one place. Adoption of the Codification did not have a material impact on the Company's consolidated financial statements.

During 2009, the Company adopted the updated GAAP rules for subsequent events. Under this update, management is required to evaluate subsequent events through the date that the consolidated financial statements are available to be issued and to disclose the date through which subsequent events are evaluated. The adoption of this standard does not change the Company's practices with respect to evaluating, recording, and disclosing subsequent events; therefore, adoption of this update had no impact on the Company's consolidated balance sheets or statements of results of operations.



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**For the Nine Months Ended September 30, 2010 and 2009 (unaudited) (Continued)**

**Note 4 Property, Plant and Equipment**

Property, plant and equipment consist of the following at the indicated dates:

	Estimated Useful Lives (Years)	December 31,		September 30,
		2009	2008	2010
(in thousands)				
Retail propane equipment, tanks and vehicles	5 - 20	\$ 10,244	\$ 10,227	\$ 10,385
Buildings and improvements	20 - 40	1,032	1,025	1,032
Land and other	N/A	259	259	259
		11,535	11,511	11,676
Less: Accumulated depreciation		7,553	7,572	7,568
Net property, plant and equipment		\$ 3,982	\$ 3,939	\$ 4,108

**Note 5 Intangible Assets**

Intangible assets (all amortizable) consist of the following:

	Estimated Useful Lives (Years)	December 31, 20092008		September 30, 2010
		(in thousands)		
Customer lists	15	\$ 95	\$ 95	\$ 95
Customer relationships	15	277	277	277
Non-compete agreements	5	171	171	171
Total intangible assets		543	543	543
Less: Accumulated amortization		250	218	273
Net intangible assets		\$ 293	\$ 325	\$ 270

Future amortization expense is estimated to be approximately \$26,000 per year for 2010 through 2014.

**Note 6 Commitments and Contingencies***Environmental Matters*

The Company's operations are subject to extensive Federal, state and local environmental laws and regulations that could require expenditures for remediation of operating facilities. Although management believes the Company's operations are in substantial compliance with

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applicable environmental laws and regulations, risks of additional costs and liabilities are inherent in the propane distribution, terminal and storage business, and there can be no assurance that significant costs and liabilities will not be incurred. Moreover, it is possible that other developments, such as increasingly stringent environmental laws, regulations and enforcement policies thereunder, and claims for damages to property or persons resulting from the operations or prior operations, could result in substantial costs and liabilities. Accordingly, the Company has adopted policies, practices and procedures in the areas of pollution control, product safety, occupational health, and the handling, storage, use, and disposal of hazardous materials to prevent

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**THE BUSINESSES OF HICKSGAS GIFFORD, INC.**  
**SOLD TO NGL ENERGY PARTNERS LP**  
**Notes to Consolidated Financial Statements**  
**For the Years Ended December 31, 2009, 2008 and 2007 (audited)**  
**For the Nine Months Ended September 30, 2010 and 2009 (unaudited) (Continued)**

material environmental or other damage, and to limit the financial liability, which could result from such events. However, some risk of environmental or other damage is inherent in the Company's business.

*Sales and Purchase Contracts*

The Company has entered into sales contracts for propane to be delivered in future periods. These contracts require that the parties physically settle the transactions. At December 31, 2009, the Company had outstanding sales contracts of approximately \$2.0 million that expired at various dates through March 31, 2010.

*Litigation*

The Company is involved in claims and legal actions arising in the ordinary course of business. Management believes that the ultimate disposition of these matters will not have a material adverse effect on the Company's financial position and results of operations.

**Note 7 Fair Value of Financial Instruments**

For cash and cash equivalents, accounts receivable, accounts payable, accrued expenses and other payables, the carrying value is a reasonable estimate of fair value, primarily because of the short-term nature of the instruments (considered to be Level 1). The Company has no assets or liabilities that are required to be recorded on the basis of fair value.

**Note 8 Employee Benefits**

The Company sponsors a 401(k) defined contribution plan for the benefit of its employees. The plan allows eligible employees to contribute a portion of their income to such plan subject to limitations established by law. The Company may make discretionary contributions to the plan to be allocated to plan participants. For the years ended December 31, 2009, 2008 and 2007, the Company recorded expenses of \$31,000, \$30,000 and \$27,000, respectively.

**Note 9 Related Party Transactions**

The Company's shareholders also have controlling interests in various other related companies which are not included in these consolidated financial statements. The Company purchases propane and receives an allocation of certain general and administrative expenses from a related party.

A summary of the related party activities included in these consolidated financial statements are as follows:

	<b>For the Year Ended December 31,</b>			<b>For the Nine Months Ended September 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2010</b>	<b>2009</b>
	<b>(in thousands)</b>				
Purchases	\$ 12,338	\$ 15,793	\$ 12,571	\$ 7,448	\$ 7,311
Allocated general and administrative expenses	1,223	1,139	1,035	606	905
Rent expense	25	25	25	19	19



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**THE BUSINESSES OF HICKSGAS GIFFORD, INC.  
SOLD TO NGL ENERGY PARTNERS LP  
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For the Years Ended December 31, 2009, 2008 and 2007 (audited)  
For the Nine Months Ended September 30, 2010 and 2009 (unaudited) (Continued)**

**Note 10 Subsequent Events**

Management has evaluated subsequent events through February 11, 2011.

The sale of the Company's assets to NGL Energy in October 2010 results in the incurrence of a built-in gain tax related to the Subchapter S election in 2005 that management had not recorded as such payment was not considered more likely than not. This tax obligation was realized only upon the sale of the Company's businesses to NGL Energy in October 2010. NGL Energy did not assume this obligation in the Combination. Rather, the Company's shareholders assumed the obligation to pay such tax. Since this obligation was not assumed by NGL Energy, it is not reflected in the financial statements for the nine months ended September 30, 2010.

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**APPENDIX A**

**FORM OF  
SECOND AMENDED AND RESTATED  
AGREEMENT OF LIMITED PARTNERSHIP  
OF  
NGL ENERGY PARTNERS LP**

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**SECOND AMENDED AND RESTATED AGREEMENT  
OF LIMITED PARTNERSHIP OF NGL ENERGY PARTNERS LP**

THIS SECOND AMENDED AND RESTATED AGREEMENT OF LIMITED PARTNERSHIP OF NGL ENERGY PARTNERS LP (formerly known as Silverthorne Energy Partners LP) dated as of [ ], 2011 and effective as set forth in Section 16.8, is entered into by and among NGL Energy Holdings LLC, a Delaware limited liability company, as the General Partner, and the Initial Limited Partners (as defined herein), together with any other Persons who become Partners in the Partnership or parties hereto as provided herein. In consideration of the covenants, conditions and agreements contained herein, the parties hereto hereby agree as follows:

**ARTICLE I**

**DEFINITIONS**

*Section 1.1 Definitions.* The following definitions shall be for all purposes, unless otherwise clearly indicated to the contrary, applied to the terms used in this Agreement.

**"Acquisition"** means any transaction in which any Group Member acquires (through an asset acquisition, merger, stock acquisition or other form of investment) control over all or a portion of the assets, properties or business of another Person for the purpose of increasing or expanding, over the long-term, the operating capacity or operating income of the Partnership Group from the operating capacity or operating income of the Partnership Group existing immediately prior to such transaction. For purposes of this definition, "long-term" generally refers to a period exceeding 12 months.

**"Additional Book Basis"** means the portion of any remaining Carrying Value of an Adjusted Property that is attributable to positive adjustments made to such Carrying Value as a result of Book-Up Events. For purposes of determining the extent that Carrying Value constitutes Additional Book Basis:

- (a) Any negative adjustment made to the Carrying Value of an Adjusted Property as a result of either a Book-Down Event or a Book-Up Event shall first be deemed to offset or decrease that portion of the Carrying Value of such Adjusted Property that is attributable to any prior positive adjustments made thereto pursuant to a Book-Up Event or Book-Down Event.
- (b) If Carrying Value that constitutes Additional Book Basis is reduced as a result of a Book-Down Event and the Carrying Value of other property is increased as a result of such Book-Down Event, an allocable portion of any such increase in Carrying Value shall be treated as Additional Book Basis; provided, that the amount treated as Additional Book Basis pursuant hereto as a result of such Book-Down Event shall not exceed the amount by which the Aggregate Remaining Net Positive Adjustments after such Book-Down Event exceeds the remaining Additional Book Basis attributable to all of the Partnership's Adjusted Property after such Book-Down Event (determined without regard to the application of this clause (b) to such Book-Down Event).

**"Additional Book Basis Derivative Items"** means any Book Basis Derivative Items that are computed with reference to Additional Book Basis. To the extent that the Additional Book Basis attributable to all of the Partnership's Adjusted Property as of the beginning of any taxable period exceeds the Aggregate Remaining Net Positive Adjustments as of the beginning of such period (the **"Excess Additional Book Basis"**), the Additional Book Basis Derivative Items for such period shall be reduced by the amount that bears the same ratio to the amount of Additional Book Basis Derivative Items determined without regard to this sentence as the Excess Additional Book Basis bears to the Additional Book Basis as of the beginning of such period. With respect to a Disposed of Adjusted Property, the Additional Book Basis Derivative items shall be the amount of Additional Book Basis taken into account in computing gain or loss from the disposition of such Disposed of Adjusted Property.

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**"Adjusted Capital Account"** means the Capital Account maintained for each Partner as of the end of each taxable period of the Partnership, (a) increased by any amounts that such Partner is obligated to restore under the standards set by Treasury Regulation Section 1.704-1(b)(2)(ii)(c) (or is deemed obligated to restore under Treasury Regulation Sections 1.704-2(g) and 1.704-2(i)(5)) and (b) decreased by (i) the amount of all losses and deductions that, as of the end of such taxable period, are reasonably expected to be allocated to such Partner in subsequent taxable periods under Sections 704(e)(2) and 706(d) of the Code and Treasury Regulation Section 1.751-1(b)(2)(ii), and (ii) the amount of all distributions that, as of the end of such taxable period, are reasonably expected to be made to such Partner in subsequent taxable periods in accordance with the terms of this Agreement or otherwise to the extent they exceed offsetting increases to such Partner's Capital Account that are reasonably expected to occur during (or prior to) the taxable period in which such distributions are reasonably expected to be made (other than increases as a result of a minimum gain chargeback pursuant to Section 6.1(d)(i) or Section 6.1(d)(ii)). The foregoing definition of Adjusted Capital Account is intended to comply with the provisions of Treasury Regulation Section 1.704-1(b)(2)(ii)(d) and shall be interpreted consistently therewith. The "Adjusted Capital Account" of a Partner in respect of any Partnership Interest shall be the amount that such Adjusted Capital Account would be if such Partnership Interest were the only interest in the Partnership held by such Partner from and after the date on which such Partnership Interest was first issued.

**"Adjusted Operating Surplus"** means, with respect to any period, (a) Operating Surplus generated with respect to such period; (b) less (i) the amount of any net increase in Working Capital Borrowings (or the Partnership's proportionate share of any net increase in Working Capital Borrowings in the case of Subsidiaries that are not wholly owned) with respect to that period; and (ii) the amount of any net decrease in cash reserves (or the Partnership's proportionate share of any net decrease in cash reserves in the case of Subsidiaries that are not wholly owned) for Operating Expenditures with respect to such period not relating to an Operating Expenditure made with respect to such period; and (c) plus (i) the amount of any net decrease in Working Capital Borrowings (or the Partnership's proportionate share of any net decrease in Working Capital Borrowings in the case of Subsidiaries that are not wholly owned) with respect to that period; (ii) the amount of any net increase in cash reserves (or the Partnership's proportionate share of any net increase in cash reserves in the case of Subsidiaries that are not wholly owned) for Operating Expenditures with respect to such period required by any debt instrument for the repayment of principal, interest or premium; and (iii) any net decrease made in subsequent periods in cash reserves for Operating Expenditures initially established with respect to such period to the extent such decrease results in a reduction in Adjusted Operating Surplus in subsequent periods pursuant to clause (b)(ii) above. Adjusted Operating Surplus does not include that portion of Operating Surplus included in clause (a)(i) of the definition of Operating Surplus.

**"Adjusted Property"** means any property the Carrying Value of which has been adjusted pursuant to Section 5.5(d).

**"Affiliate"** means, with respect to any Person, any other Person that directly or indirectly through one or more intermediaries controls, is controlled by or is under common control with, the Person in question. As used herein, the term "control" means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a Person, whether through ownership of voting securities, by contract or otherwise. Without limiting the foregoing, for purposes of this Agreement, any Person that, individually or together with its Affiliates, has the direct or indirect right to designate or cause the designation of at least one member to the Board of Directors of the General Partner, and any such Person's Affiliates, shall be deemed to be Affiliates of the General Partner. Notwithstanding anything in the foregoing to the contrary, the Hicks Entities and their respective Affiliates (other than the General Partner or any Group Member), on the one hand, the NGL Shareholders and their respective Affiliates (other than the General Partner or any Group Member), on another hand, and the IEP Entities and their respective Affiliates (other than the General Partner or any Group Member), on another hand, will not be deemed to be Affiliates of one another hereunder unless there is

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a basis for such Affiliation independent of their respective Affiliation with any Group Member, the General Partner or any Affiliate (disregarding the immediately preceding sentence) of any Group Member or the General Partner.

"**Aggregate Quantity of IDR Reset Common Units**" is defined in Section 5.11(a).

"**Aggregate Remaining Net Positive Adjustments**" means, as of the end of any taxable period, the sum of the Remaining Net Positive Adjustments of all the Partners.

"**Agreed Allocation**" means any allocation, other than a Required Allocation, of an item of income, gain, loss or deduction pursuant to the provisions of Section 6.1, including a Curative Allocation (if appropriate to the context in which the term "Agreed Allocation" is used).

"**Agreed Value**" of any Contributed Property means the fair market value of such property at the time of contribution and in the case of an Adjusted Property, the fair market value of such Adjusted Property on the date of the revaluation event as described in Section 5.5(d), in both cases as determined by the General Partner. In making such determination, the General Partner shall use such method as it determines to be appropriate.

"**Agreement**" means this Second Amended and Restated Agreement of Limited Partnership of NGL Energy Partners LP, as it may be amended, supplemented or restated from time to time.

"**Associate**" means, when used to indicate a relationship with any Person, (a) any corporation or organization of which such Person is a director, officer, manager, general partner or managing member or is, directly or indirectly, the owner of 20% or more of any class of voting stock or other voting interest; (b) any trust or other estate in which such Person has at least a 20% beneficial interest or as to which such Person serves as trustee or in a similar fiduciary capacity; and (c) any relative or spouse of such Person, or any relative of such spouse, who has the same principal residence as such Person.

"**Available Cash**" means, with respect to any Quarter ending prior to the Liquidation Date:

- (a) the sum of (i) all cash and cash equivalents of the Partnership Group (or the Partnership's proportionate share of cash and cash equivalents in the case of Subsidiaries that are not wholly owned) on hand at the end of such Quarter, and (ii) if the General Partner so determines, all or any portion of any additional cash and cash equivalents of the Partnership Group (or the Partnership's proportionate share of cash and cash equivalents in the case of Subsidiaries that are not wholly owned) on hand on the date of determination of Available Cash with respect to such Quarter, less
- (b) the amount of any cash reserves established by the General Partner (or the Partnership's proportionate share of cash reserves in the case of Subsidiaries that are not wholly owned) to (i) provide for the proper conduct of the business of the Partnership Group (including reserves for future capital expenditures and for anticipated future credit needs of the Partnership Group) subsequent to such Quarter, (ii) comply with applicable law or any loan agreement, security agreement, mortgage, debt instrument or other agreement or obligation to which any Group Member is a party or by which it is bound or its assets are subject or (iii) provide funds for distributions under Section 6.4 or Section 6.5 in respect of any one or more of the next four Quarters; *provided, however*, that the General Partner may not establish cash reserves pursuant to clause (iii) above if the effect of such reserves would be that the Partnership is unable to distribute the Minimum Quarterly Distribution on all Common Units, plus any Cumulative Common Unit Arrearage on all Common Units, with respect to such Quarter; and, *provided further*, that disbursements made by a Group Member or cash reserves established, increased or reduced after the end of such Quarter but on or before the date of determination of Available Cash with respect to such Quarter shall be deemed to have been made, established, increased or reduced, for purposes of determining Available Cash, within such Quarter if the General Partner so determines.

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Notwithstanding the foregoing, "Available Cash" with respect to the Quarter in which the Liquidation Date occurs and any subsequent Quarter shall equal zero.

"**Board of Directors**" means, with respect to the Board of Directors of the General Partner, its board of directors or board of managers, as applicable, if a corporation or limited liability company, or if a limited partnership, the board of directors or board of managers of the general partner of the General Partner.

"**Book Basis Derivative Items**" means any item of income, deduction, gain or loss that is computed with reference to the Carrying Value of an Adjusted Property (e.g., depreciation, depletion, or gain or loss with respect to an Adjusted Property).

"**Book-Down Event**" means an event that triggers a negative adjustment to the Capital Accounts of the Partners pursuant to Section 5.5(d).

"**Book-Tax Disparity**" means with respect to any item of Contributed Property or Adjusted Property, as of the date of any determination, the difference between the Carrying Value of such Contributed Property or Adjusted Property and the adjusted basis thereof for federal income tax purposes as of such date. A Partner's share of the Partnership's Book-Tax Disparities in all of its Contributed Property and Adjusted Property will be reflected by the difference between such Partner's Capital Account balance as maintained pursuant to Section 5.5 and the hypothetical balance of such Partner's Capital Account computed as if it had been maintained strictly in accordance with federal income tax accounting principles.

"**Book-Up Event**" means an event that triggers a positive adjustment to the Capital Accounts of the Partners pursuant to Section 5.5(d).

"**Business Day**" means Monday through Friday of each week, except that a legal holiday recognized as such by the government of the United States of America or the State of New York shall not be regarded as a Business Day.

"**Capital Account**" means the capital account maintained for a Partner pursuant to Section 5.5. The "Capital Account" of a Partner in respect of any Partnership Interest shall be the amount that such Capital Account would be if such Partnership Interest were the only interest in the Partnership held by such Partner from and after the date on which such Partnership Interest was first issued.

"**Capital Contribution**" means any cash, cash equivalents or the Net Agreed Value of Contributed Property that a Partner contributes to the Partnership or that is contributed or deemed contributed to the Partnership on behalf of a Partner (including, in the case of an underwritten offering of Units, the amount of any underwriting discounts or commissions).

"**Capital Improvement**" means any (a) addition or improvement to the capital assets owned by any Group Member, (b) acquisition of existing, or the construction of new or the improvement or replacement of existing, capital assets (including, without limitation, propane assets or other midstream assets or facilities) or (c) capital contribution by a Group Member to a Person that is not a Subsidiary in which a Group Member has an equity interest, or after such capital contribution will have an equity interest, to fund such Group Member's pro rata share of the cost of the addition or improvement to or the acquisition of existing, or the construction of new or the improvement or replacement of existing, capital assets (including, without limitation, propane assets or other midstream assets or facilities) by such Person, in each case if such addition, improvement, replacement, acquisition or construction is made to increase, over the long-term, the operating capacity or operating income of the Partnership Group, in the case of clauses (a) and (b), or such Person, in the case of clause (c), from the operating capacity or operating income of the Partnership Group or such Person, as the case may be, existing immediately prior to such addition, improvement, replacement, acquisition or construction. For purposes of this definition, "long-term" generally refers to a period exceeding 12 months.



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**"Capital Surplus"** means Available Cash distributed by the Partnership in excess of Operating Surplus, as described in Section 6.3(a).

**"Carrying Value"** means (a) with respect to a Contributed Property or Adjusted Property, the Agreed Value of such property reduced (but not below zero) by all depreciation, amortization and cost recovery deductions charged to the Partners' Capital Accounts in respect of such property, and (b) with respect to any other Partnership property, the adjusted basis of such property for federal income tax purposes, all as of the time of determination; provided that the Carrying Value of any property shall be adjusted from time to time in accordance with Section 5.5(d)(i) and Section 5.5(d)(ii) and to reflect changes, additions or other adjustments to the Carrying Value for dispositions and acquisitions of Partnership properties, as deemed appropriate by the General Partner.

**"Cause"** means a court of competent jurisdiction has entered a final, non-appealable judgment finding the General Partner liable for actual fraud or willful misconduct in its capacity as a general partner of the Partnership.

**"Certificate"** means (a) a certificate (i) substantially in the form of Exhibit A to this Agreement, (ii) issued in global form in accordance with the rules and regulations of the Depositary or (iii) in such other form as may be adopted by the General Partner, issued by the Partnership evidencing ownership of one or more Common Units or (b) a certificate, in such form as may be adopted by the General Partner, issued by the Partnership evidencing ownership of one or more other Partnership Interests.

**"Certificate of Limited Partnership"** means the Certificate of Limited Partnership of the Partnership filed with the Secretary of State of the State of Delaware as referenced in Section 7.2, as such Certificate of Limited Partnership may be amended, supplemented or restated from time to time.

**"Citizenship Eligibility Trigger"** is defined in Section 4.9(a)(ii).

**"Closing Date"** means the first date on which Common Units are sold by the Partnership to the Underwriters pursuant to the provisions of the Underwriting Agreement.

**"Closing Price"** means, in respect of any class of Limited Partner Interests, as of the date of determination, the last sale price on such day, regular way, or in case no such sale takes place on such day, the average of the closing bid and asked prices on such day, regular way, in either case as reported in the principal consolidated transaction reporting system with respect to securities listed or admitted to trading on the principal National Securities Exchange on which the respective Limited Partner Interests are listed or admitted to trading or, if such Limited Partner Interests are not listed or admitted to trading on any National Securities Exchange, the last quoted price on such day or, if not so quoted, the average of the high bid and low asked prices on such day in the over-the-counter market, as reported by the primary reporting system then in use in relation to such Limited Partner Interests of such class, or, if on any such day such Limited Partner Interests of such class are not quoted by any such organization, the average of the closing bid and asked prices on such day as furnished by a professional market maker making a market in such Limited Partner Interests of such class selected by the General Partner, or if on any such day no market maker is making a market in such Limited Partner Interests of such class, the fair value of such Limited Partner Interests on such day as determined by the General Partner.

**"Code"** means the Internal Revenue Code of 1986, as amended and in effect from time to time. Any reference herein to a specific section or sections of the Code shall be deemed to include a reference to any corresponding provision of any successor law.

**"Combined Interest"** is defined in Section 11.3(a).

**"Commences Commercial Service"** means the date a Capital Improvement is first put into commercial service following completion of construction, acquisition, development and testing, as applicable.

**"Commission"** means the United States Securities and Exchange Commission.

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**"Common Unit"** means a Partnership Interest representing a fractional part of the Partnership Interests of all Limited Partners, and having the rights and obligations specified with respect to Common Units in this Agreement. The term "Common Unit" does not refer to or include any Subordinated Unit prior to its conversion into a Common Unit pursuant to the terms hereof.

**"Common Unit Arrearage"** means, with respect to any Common Unit, whenever issued, with respect to any Quarter within the Subordination Period, the excess, if any, of (a) the Minimum Quarterly Distribution with respect to a Common Unit in respect of such Quarter over (b) the sum of all Available Cash distributed with respect to a Common Unit in respect of such Quarter pursuant to Section 6.4(a)(i).

**"Conflicts Committee"** means a committee of the Board of Directors of the General Partner composed entirely of two or more directors, each of whom (a) is not an officer or employee of the General Partner, (b) is not an officer, director or employee of any Affiliate of the General Partner, (c) is not a holder of any ownership interest in the General Partner or its Affiliates or the Partnership Group, other than Common Units and other awards that are granted to such director under the LTIP and (d) meets the independence standards required of directors who serve on an audit committee of a board of directors established by the Securities Exchange Act and the rules and regulations of the Commission thereunder and by the National Securities Exchange on which any class of Partnership Interests is listed or admitted to trading.

**"Contributed Property"** means each property or other asset, in such form as may be permitted by the Delaware Act, but excluding cash, contributed to the Partnership. Once the Carrying Value of a Contributed Property is adjusted pursuant to Section 5.5(d), such property shall no longer constitute a Contributed Property, but shall be deemed an Adjusted Property.

**"Contribution, Purchase and Sale Agreement"** means that certain Contribution, Purchase and Sale Agreement, dated as of September 30, 2010, by and among the Hicks Entities, Hicksgas Gifford, Inc., NGL Supply, Inc., NGL Holdings, Inc., the other stockholders of NGL Supply, Inc., Krim2010, LLC, Infrastructure Capital Management, LLC, Atkinson Investors, LLC, NGL Energy Holdings LLC (formerly known as Silverthorne Energy Holdings LLC) and the Partnership.

**"Cumulative Common Unit Arrearage"** means, with respect to any Common Unit, whenever issued, and as of the end of any Quarter, the excess, if any, of (a) the sum of the Common Unit Arrearages with respect to an Initial Common Unit for each of the Quarters within the Subordination Period ending on or before the last day of such Quarter over (b) the sum of any distributions theretofore made pursuant to Section 6.4(a)(ii) and the second sentence of Section 6.5 with respect to an Initial Common Unit (including any distributions to be made in respect of the last of such Quarters).

**"Curative Allocation"** means any allocation of an item of income, gain, deduction, loss or credit pursuant to the provisions of Section 6.1(d)(xi).

**"Current Market Price"** means, in respect of any class of Limited Partner Interests, as of the date of determination, the average of the daily Closing Prices per Limited Partner Interest of such class for the 20 consecutive Trading Days immediately prior to such date.

**"Delaware Act"** means the Delaware Revised Uniform Limited Partnership Act, 6 Del C. Section 17-101, et seq., as amended, supplemented or restated from time to time, and any successor to such statute.

**"Departing General Partner"** means a former General Partner from and after the effective date of any withdrawal or removal of such former General Partner pursuant to Section 11.1 or Section 11.2.

**"Depository"** means, with respect to any Units issued in global form, The Depository Trust Company and its successors and permitted assigns.

**"Disposed of Adjusted Property"** is defined in Section 6.1(d)(xii)(B).

**"Economic Risk of Loss"** has the meaning set forth in Treasury Regulation Section 1.752-2(a).

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**"Eligibility Certificate"** is defined in Section 4.9(b).

**"Eligible Holder"** means a Limited Partner whose (a) federal income tax status would not, in the determination of the General Partner, have the material adverse effect described in Section 4.9(a)(i) or Section 4.9(b) nationality, citizenship or other related status would not, in the determination of the General Partner, create a substantial risk of cancellation or forfeiture as described in Section 4.9(a)(ii).

**"Estimated Incremental Quarterly Tax Amount"** is defined in Section 6.9.

**"Event of Withdrawal"** is defined in Section 11.1(a).

**"Excess Additional Book Basis"** is defined in the definition of "Additional Book Basis Derivative Items."

**"Excess Distribution"** is defined in Section 6.1(d)(iii)(A).

**"Excess Distribution Unit"** is defined in Section 6.1(d)(iii)(A).

**"Expansion Capital Expenditures"** means cash expenditures for Acquisitions or Capital Improvements, and shall not include Maintenance Capital Expenditures or Investment Capital Expenditures. Expansion Capital Expenditures shall include interest (and related fees) on debt incurred to finance the construction of a Capital Improvement and paid in respect of the period beginning on the date that a Group Member enters into a binding obligation to commence construction of a Capital Improvement and ending on the earlier to occur of the date that such Capital Improvement Commences Commercial Service and the date that such Capital Improvement is abandoned or disposed of. Debt incurred to fund such construction period interest payments or to fund distributions on equity issued (including incremental Incentive Distributions related thereto) to fund the construction of a Capital Improvement as described in clause (a)(iv) of the definition of Operating Surplus shall also be deemed to be debt incurred to finance the construction of a Capital Improvement. Where capital expenditures are made in part for Expansion Capital Expenditures and in part for other purposes, the General Partner shall determine the allocation between the amounts paid for each.

**"Final Subordinated Units"** is defined in Section 6.1(d)(x)(A).

**"First Amended and Restated Partnership Agreement"** shall mean the First Amended and Restated Partnership Agreement of Silverthorne Energy Partners LP (now known as NGL Energy Partners LP).

**"First Liquidation Target Amount"** is defined in Section 6.1(c)(i)(D).

**"First Target Distribution"** means 115% of the Minimum Quarterly Distribution.

**"Fully Diluted Weighted Average Basis"** means, when calculating the number of Outstanding Units for any period, a basis that includes (1) the weighted average number of Outstanding Units plus (2) all Partnership Interests and options, rights, warrants, phantom units and appreciation rights relating to an equity interest in the Partnership (a) that are convertible into or exercisable or exchangeable for Units or for which Units are issuable, in each case that are senior to or pari passu with the Subordinated Units, (b) whose conversion, exercise or exchange price is less than the Current Market Price on the date of such calculation, (c) that may be converted into or exercised or exchanged for such Units prior to or during the Quarter immediately following the end of the period for which the calculation is being made without the satisfaction of any contingency beyond the control of the holder other than the payment of consideration and the compliance with administrative mechanics applicable to such conversion, exercise or exchange and (d) that were not converted into or exercised or exchanged for such Units during the period for which the calculation is being made; provided, however, that for purposes of determining the number of Outstanding Units on a Fully Diluted Weighted Average Basis when calculating whether the Subordination Period has ended or the Subordinated Units are entitled to convert into Common Units pursuant to Section 5.7, such Partnership Interests, options, rights, warrants and appreciation rights shall be deemed to have been Outstanding Units only for the four Quarters that

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comprise the last four Quarters of the measurement period; provided, further, that if consideration will be paid to any Group Member in connection with such conversion, exercise or exchange, the number of Units to be included in such calculation shall be that number equal to the difference between (i) the number of Units issuable upon such conversion, exercise or exchange and (ii) the number of Units that such consideration would purchase at the Current Market Price.

**"General Partner"** means NGL Energy Holdings LLC, a Delaware limited liability company, and its successors and permitted assigns that are admitted to the Partnership as general partner of the Partnership, in its capacity as general partner of the Partnership (except as the context otherwise requires).

**"General Partner Interest"** means the ownership interest of the General Partner in the Partnership (in its capacity as a general partner without reference to any Limited Partner Interest held by it), and includes any and all benefits to which the General Partner is entitled as provided in this Agreement, together with all obligations of the General Partner to comply with the terms and provisions of this Agreement.

**"Gross Liability Value"** means, with respect to any Liability of the Partnership described in Treasury Regulation Section 1.752-7(b)(3)(i), the amount of cash that a willing assignor would pay to a willing assignee to assume such Liability in an arm's-length transaction.

**"Group"** means a Person that with or through any of its Affiliates or Associates has any contract, arrangement, understanding or relationship for the purpose of acquiring, holding, voting (except voting pursuant to a revocable proxy or consent given to such Person in response to a proxy or consent solicitation made to 10 or more Persons), exercising investment power or disposing of any Partnership Interests with any other Person that beneficially owns, or whose Affiliates or Associates beneficially own, directly or indirectly, Partnership Interests.

**"Group Member"** means a member of the Partnership Group.

**"Group Member Agreement"** means the partnership agreement of any Group Member, other than the Partnership, that is a limited or general partnership, the limited liability company agreement of any Group Member that is a limited liability company, the certificate of incorporation and bylaws or similar organizational documents of any Group Member that is a corporation, the joint venture agreement or similar governing document of any Group Member that is a joint venture and the governing or organizational or similar documents of any other Group Member that is a Person other than a limited or general partnership, limited liability company, corporation or joint venture, as such may be amended, supplemented or restated from time to time.

**"Hedge Contract"** means any exchange, swap, forward, cap, floor, collar, option or other similar agreement or arrangement entered into for the purpose of reducing the exposure of the Partnership Group to fluctuations in interest rates or the price of hydrocarbons, other than for speculative purposes.

**"Hicks Entities"** means Hicks Oils & Hicksgas, Incorporated, an Indiana corporation, and Gifford Holdings, Inc., an Indiana corporation.

**"IDR Reset Common Unit"** is defined in Section 5.11(a).

**"IDR Reset Election"** is defined in Section 5.11(a).

**"IEP Entities"** means Krim2010, LLC, an Oklahoma limited liability company, Atkinson Investors, LLC, a Texas limited liability company and Infrastructure Capital Management, LLC, a New York limited liability company.

**"Incentive Distribution Right"** means a non-voting Limited Partner Interest that will confer upon the holder thereof only the rights and obligations specifically provided in this Agreement with respect to Incentive Distribution Rights (and no other rights otherwise available to or other obligations of a holder of a Partnership Interest). Notwithstanding anything in this Agreement to the contrary, the holder of an Incentive Distribution Right shall not be entitled to vote such Incentive Distribution Right on any Partnership matter except as may otherwise be required by law.

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**"Incentive Distributions"** means any amount of cash distributed to the holders of the Incentive Distribution Rights pursuant to Section 6.4.

**"Incremental Income Taxes"** is defined in Section 6.9.

**"Indemnatee"** means (a) any General Partner, (b) any Departing General Partner, (c) any Person who is or was an Affiliate of the General Partner or any Departing General Partner, (d) any Person who is or was a manager, managing member, director, officer, fiduciary or trustee of any Group Member, a General Partner, any Departing General Partner or any of their respective Affiliates, (e) any Person who is or was serving at the request of a General Partner, any Departing General Partner or any of their respective Affiliates as an officer, director, manager, managing member, fiduciary or trustee of another Person owing a fiduciary duty to any Group Member; provided that a Person shall not be an Indemnatee by reason of providing, on a fee-for-services basis, trustee, fiduciary or custodial services, (f) any Person who controls a General Partner or Departing General Partner and (g) any Person the General Partner designates as an "Indemnatee" for purposes of this Agreement because such Person's service, status or relationship exposes such Person to potential claims, demands, actions, suits or proceedings relating to the Partnership Group's business and affairs.

**"Ineligible Holder"** is defined in Section 4.9(c).

**"Initial Common Units"** means the Common Units sold in the Initial Public Offering.

**"Initial Limited Partners"** means the persons identified as "Limited Partners" on the signature pages of the First Amended and Restated Partnership Agreement and the General Partner (with respect to the Incentive Distribution Rights).

**"Initial Public Offering"** means the initial offering and sale of Common Units to the public, as described in the Registration Statement, including any Common Units issued pursuant to the exercise of the Over-Allotment Option.

**"Initial Unit Price"** means (a) with respect to the Common Units and the Subordinated Units, the initial public offering price per Common Unit at which the Underwriters in the Initial Public Offering agree to offer the Common Units to the public for sale as set forth on the cover page of the final prospectus filed pursuant to Rule 424(b) of the rules and regulations of the Commission under the Securities Act with respect to the Initial Public Offering or (b) with respect to any other class or series of Units, the price per Unit at which such class or series of Units is initially sold by the Partnership, as determined by the General Partner, in each case adjusted as the General Partner determines to be appropriate to give effect to any distribution, subdivision or combination of Units.

**"Interim Capital Transactions"** means the following transactions if they occur prior to the Liquidation Date: (a) borrowings, refinancings or refundings of indebtedness (other than Working Capital Borrowings and other than for items purchased on open account or for a deferred purchase price in the ordinary course of business) by any Group Member and sales of debt securities of any Group Member; (b) sales of equity interests of any Group Member (including in the Initial Public Offering); (c) sales or other voluntary or involuntary dispositions of any assets of any Group Member other than (i) sales or other dispositions of inventory, accounts receivable and other assets in the ordinary course of business, and (ii) sales or other dispositions of assets as part of normal retirements or replacements; and (d) capital contributions received.

**"Investment Capital Expenditures"** means capital expenditures other than Maintenance Capital Expenditures and Expansion Capital Expenditures.

**"Liability"** means any liability or obligation of any nature, whether accrued, contingent or otherwise.

**"Limited Partner"** means, unless the context otherwise requires, each Initial Limited Partner, each additional Person that becomes a Limited Partner pursuant to the terms of this Agreement and any

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Departing General Partner upon the change of its status from General Partner to Limited Partner pursuant to Section 11.3, in each case, in such Person's capacity as a limited partner of the Partnership; provided, however, that when the term "Limited Partner" is used herein in the context of any vote or other approval, including Articles XIII and XIV, such term shall not, solely for such purpose, include any holder of an Incentive Distribution Right (solely with respect to its Incentive Distribution Rights and not with respect to any other Limited Partner Interest held by such Person) except as may otherwise be required by law.

**"Limited Partner Interest"** means the ownership interest of a Limited Partner in the Partnership, which may be evidenced by Common Units, Subordinated Units, Incentive Distribution Rights or other Partnership Interests or a combination thereof or interest therein, and includes any and all benefits to which such Limited Partner is entitled as provided in this Agreement, together with all obligations of such Limited Partner to comply with the terms and provisions of this Agreement; provided, however, that when the term "Limited Partner Interest" is used herein in the context of any vote or other approval, including Articles XIII and XIV, such term shall not, solely for such purpose, include any Incentive Distribution Right except as may otherwise be required by law.

**"Liquidation Date"** means (a) in the case of an event giving rise to the dissolution of the Partnership of the type described in clauses (a) and (b) of the first sentence of Section 12.2, the date on which the applicable time period during which the holders of Outstanding Units have the right to elect to continue the business of the Partnership has expired without such an election being made, and (b) in the case of any other event giving rise to the dissolution of the Partnership, the date on which such event occurs.

**"Liquidator"** means one or more Persons selected by the General Partner to perform the functions described in Section 12.4 as liquidating trustee of the Partnership within the meaning of the Delaware Act.

**"LTIP"** means the Long-Term Incentive Plan of the General Partner, as may be amended, or any equity compensation plan successor thereto.

**"Maintenance Capital Expenditures"** means cash expenditures (including expenditures for the addition or improvement to or replacement of the capital assets owned by any Group Member or for the acquisition of existing, or the construction or development of new, capital assets, including, without limitation, propane assets and other related or similar midstream assets) if such expenditures are made to maintain, including over the long-term, the operating capacity and/or operating income of the Partnership Group. Maintenance Capital Expenditures shall not include (a) Expansion Capital Expenditures or (b) Investment Capital Expenditures. Maintenance Capital Expenditures shall include interest (and related fees) on debt incurred and distributions on equity issued, other than equity issued on the Closing Date or the Option Closing Date, in each case, to finance the construction or development of a replacement asset and paid during the period beginning on the date that a Group Member enters into a binding obligation to commence constructing or developing a replacement asset and ending on the earlier to occur of the date that such replacement asset Commences Commercial Service and the date that such replacement asset is abandoned or disposed of. Debt incurred to pay or equity issued to fund construction or development period interest payments, or such construction or development period distributions on equity, shall also be deemed to be debt or equity, as the case may be, incurred to finance the construction or development of a replacement asset and the incremental Incentive Distributions paid relating to newly issued equity shall be deemed to be distributions paid on equity issued to finance the construction or development of a replacement asset. For purposes of this definition, "long-term" generally refers to a period exceeding 12 months.

**"Merger Agreement"** is defined in Section 14.1.

**"Minimum Quarterly Distribution"** means \$0.3375 per Unit per Quarter (or with respect to the period from the Closing Date to the end of the quarter in which the Closing Date occurs, it means the

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product of such amount multiplied by a fraction of which the numerator is the number of days in such period and the denominator is the total number of days in such quarter), subject to adjustment in accordance with Section 5.11, Section 6.6 and Section 6.9. Notwithstanding any provision herein to the contrary, the Minimum Quarterly Distribution shall not be adjusted in connection with the subdivision and conversion contemplated by Section 5.2.

**"National Securities Exchange"** means an exchange registered with the Commission under Section 6(a) of the Securities Exchange Act (or any successor to such Section) and any other securities exchange (whether or not registered with the Commission under Section 6(a) (or successor to such Section) of the Securities Exchange Act) that the General Partner shall designate as a National Securities Exchange for purposes of this Agreement.

**"Net Agreed Value"** means, (a) in the case of any Contributed Property, the Agreed Value of such property reduced by any Liabilities either assumed by the Partnership upon such contribution or to which such property is subject when contributed and (b) in the case of any property distributed to a Partner by the Partnership, the Partnership's Carrying Value of such property (as adjusted pursuant to Section 5.5(d)(ii)) at the time such property is distributed, reduced by any Liability either assumed by such Partner upon such distribution or to which such property is subject at the time of distribution, in either case as determined and required by the Treasury Regulations promulgated under Section 704(b) of the Code.

**"Net Income"** means, for any taxable period, the excess, if any, of the Partnership's items of income and gain (other than those items taken into account in the computation of Net Termination Gain or Net Termination Loss) for such taxable period over the Partnership's items of loss and deduction (other than those items taken into account in the computation of Net Termination Gain or Net Termination Loss) for such taxable period. The items included in the calculation of Net Income shall be determined in accordance with Section 5.5(b) and shall not include any items specially allocated under Section 6.1(d); provided, that the determination of the items that have been specially allocated under Section 6.1(d) shall be made without regard to any reversal of such items under Section 6.1(d)(xii).

**"Net Loss"** means, for any taxable period, the excess, if any, of the Partnership's items of loss and deduction (other than those items taken into account in the computation of Net Termination Gain or Net Termination Loss) for such taxable period over the Partnership's items of income and gain (other than those items taken into account in the computation of Net Termination Gain or Net Termination Loss) for such taxable period. The items included in the calculation of Net Loss shall be determined in accordance with Section 5.5(b) and shall not include any items specially allocated under Section 6.1(d); provided, that the determination of the items that have been specially allocated under Section 6.1(d) shall be made without regard to any reversal of such items under Section 6.1(d)(xii).

**"Net Positive Adjustments"** means, with respect to any Partner, the excess, if any, of the total positive adjustments over the total negative adjustments made to the Capital Account of such Partner pursuant to Book-Up Events and Book-Down Events.

**"Net Termination Gain"** means, for any taxable period, the sum, if positive, of all items of income, gain, loss or deduction (determined in accordance with Section 5.5(b)) that are (a) recognized (i) after the Liquidation Date or (ii) upon the sale, exchange or other disposition of all or substantially all of the assets of the Partnership Group, taken as a whole, in a single transaction or a series of related transactions (excluding any disposition to a member of the Partnership Group), or (b) deemed recognized by the Partnership pursuant to Section 5.5(d); provided, however, the items included in the determination of Net Termination Gain shall not include any items of income, gain or loss specially allocated under Section 6.1(d).

**"Net Termination Loss"** means, for any taxable period, the sum, if negative, of all items of income, gain, loss or deduction (determined in accordance with Section 5.5(b)) that are (a) recognized (i) after the Liquidation Date or (ii) upon the sale, exchange or other disposition of all or substantially all of the

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assets of the Partnership Group, taken as a whole, in a single transaction or a series of related transactions (excluding any disposition to a member of the Partnership Group), or (b) deemed recognized by the Partnership pursuant to Section 5.5(d); provided, however, items included in the determination of Net Termination Loss shall not include any items of income, gain or loss specially allocated under Section 6.1(d).

"**NGL Shareholders**" means NGL Holdings, Inc., a Delaware corporation, and the other Limited Partners identified on the signature pages hereto.

"**Nonrecourse Built-in Gain**" means with respect to any Contributed Properties or Adjusted Properties that are subject to a mortgage or pledge securing a Nonrecourse Liability, the amount of any taxable gain that would be allocated to the Partners pursuant to Section 6.2(b) if such properties were disposed of in a taxable transaction in full satisfaction of such liabilities and for no other consideration.

"**Nonrecourse Deductions**" means any and all items of loss, deduction or expenditure (including any expenditure described in Section 705(a)(2)(B) of the Code) that, in accordance with the principles of Treasury Regulation Section 1.704-2(b), are attributable to a Nonrecourse Liability.

"**Nonrecourse Liability**" has the meaning set forth in Treasury Regulation Section 1.752-1(a)(2).

"**Notice of Election to Purchase**" is defined in Section 15.1(b).

"**Notional General Partner Units**" means notional units used solely to calculate the General Partner's Percentage Interest. Notional General Partner Units shall not constitute "Units" for any purpose of this Agreement. After giving effect to the subdivision of Common Units but before giving effect to the Initial Public Offering there shall initially be 10,945 Notional General Partner Units (resulting in the General Partner's Percentage Interest being 0.1% after giving effect to any exercise of the Over-Allotment Option). After giving effect to the Initial Public Offering and the related capital contributions by our General Partner, the number of Notional General Partner Units will be increased such that the number of Notional General Partner Units is equal to 0.1% of the total Notional General Partner Units, Common Units and Subordinated Units (resulting in the General Partner's Percentage Interest being 0.1%). If the General Partner makes additional Capital Contributions pursuant to Section 5.2(b) to maintain its Percentage Interest, the number of Notional General Partner Units shall be increased proportionally to reflect the maintenance of such Percentage Interest.

"**Operating Expenditures**" means all Partnership Group cash expenditures (or the Partnership's proportionate share of expenditures in the case of Subsidiaries that are not wholly owned), including, but not limited to, taxes, reimbursements of expenses of the General Partner and its Affiliates, payments made in the ordinary course of business under any Hedge Contracts (provided that (i) with respect to amounts paid in connection with the initial purchase of a Hedge Contract, such amounts shall be amortized over the life of such Hedge Contract and (ii) payments made in connection with the termination of any Hedge Contract prior to the expiration of its stipulated settlement or termination date shall be included in equal quarterly installments over the remaining scheduled life of such Hedge Contract), officer and other employee compensation, repayment of Working Capital Borrowings, debt service payments and Maintenance Capital Expenditures, subject to the following:

- (a) repayments of Working Capital Borrowings deducted from Operating Surplus pursuant to clause (b)(iii) of the definition of "Operating Surplus" shall not constitute Operating Expenditures when actually repaid;
- (b) payments (including prepayments and prepayment penalties) of principal of and premium on indebtedness other than Working Capital Borrowings shall not constitute Operating Expenditures; and
- (c) Operating Expenditures shall not include (i) Expansion Capital Expenditures, (ii) Investment Capital Expenditures, (iii) payment of transaction expenses (including taxes) relating to Interim Capital Transactions, (iv) distributions to Partners, or (v) repurchases of Partnership



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Interests, other than repurchases of Partnership Interests to satisfy obligations under employee benefit plans, or reimbursements of expenses of the General Partner for such purchases. Where capital expenditures are made in part for Maintenance Capital Expenditures and in part for other purposes, the General Partner shall determine the allocation between the amounts paid for each.

**"Operating Surplus"** means, with respect to any period after the Closing Date and ending prior to the Liquidation Date, on a cumulative basis and without duplication,

- (a) the sum of (i) \$20.0 million, (ii) all cash receipts of the Partnership Group (or the Partnership's proportionate share of cash receipts in the case of Subsidiaries that are not wholly owned) for the period beginning on the Closing Date and ending on the last day of such period, but excluding cash receipts from Interim Capital Transactions and provided that cash receipts from the termination of any Hedge Contract prior to the expiration of its stipulated settlement or termination date shall be included in equal quarterly installments over the remaining scheduled life of such Hedge Contract, (iii) all cash receipts of the Partnership Group (or the Partnership's proportionate share of cash receipts in the case of Subsidiaries that are not wholly owned) after the end of such period but on or before the date of determination of Operating Surplus with respect to such period resulting from Working Capital Borrowings, and (iv) the amount of cash distributions paid (including incremental Incentive Distributions) on equity issued, other than equity issued in the Initial Public Offering, to finance all or a portion of the construction, acquisition or improvement of a Capital Improvement or replacement of a capital asset and paid in respect of the period beginning on the date that the Group Member enters into a binding obligation to commence the construction, acquisition or improvement of a Capital Improvement or replacement of a capital asset and ending on the earlier to occur of the date the Capital Improvement or replacement capital asset Commences Commercial Service and the date that it is abandoned or disposed of (equity issued, other than equity issued in the Initial Public Offering, to fund the construction period interest payments on debt incurred, or construction period distributions on equity issued, to finance the construction, acquisition or improvement of a Capital Improvement or replacement of a capital asset shall also be deemed to be equity issued to finance the construction, acquisition or improvement of a Capital Improvement or replacement of a capital asset for purposes of this clause (iv)), less
- (b) the sum of (i) Operating Expenditures for the period beginning on the Closing Date and ending on the last day of such period; (ii) the amount of cash reserves established by the General Partner (or the Partnership's proportionate share of cash reserves in the case of Subsidiaries that are not wholly owned) to provide funds for future Operating Expenditures; (iii) all Working Capital Borrowings not repaid within twelve months after having been incurred; and (iv) any cash loss realized on disposition of an Investment Capital Expenditure; provided, however, that disbursements made (including contributions to a Group Member or disbursements on behalf of a Group Member) or cash reserves established, increased or reduced after the end of such period but on or before the date of determination of Available Cash with respect to such period shall be deemed to have been made, established, increased or reduced, for purposes of determining Operating Surplus, within such period if the General Partner so determines.

Notwithstanding the foregoing, **"Operating Surplus"** with respect to the Quarter in which the Liquidation Date occurs and any subsequent Quarter shall equal zero. Cash receipts from an Investment Capital Expenditure shall be treated as cash receipts only to the extent they are a return on principal, but in no event shall a return of principal be treated as cash receipts.

**"Opinion of Counsel"** means a written opinion of counsel (who may be regular counsel to the Partnership or the General Partner or any of its Affiliates) acceptable to the General Partner.

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**"Option Closing Date"** means the date or dates on which any Common Units are sold by the Partnership to the Underwriters upon exercise of the Over-Allotment Option.

**"Outstanding"** means, with respect to Partnership Interests, all Partnership Interests that are issued by the Partnership and reflected as outstanding on the Partnership's books and records as of the date of determination; provided, however, that if at any time after the Initial Public Offering any Person or Group (other than the General Partner or its Affiliates) beneficially owns 20% or more of the Outstanding Partnership Interests of any class then Outstanding, none of the Partnership Interests owned by such Person or Group shall be voted on any matter nor shall they be considered to be Outstanding when sending notices of a meeting of Limited Partners to vote on any matter (unless otherwise required by law), calculating required votes, determining the presence of a quorum or for other similar purposes under this Agreement, except that Partnership Interests so owned shall be considered to be Outstanding for purposes of Section 11.1(b)(iv) (such Partnership Interests shall not, however, be treated as a separate class of Partnership Interests for purposes of this Agreement or the Delaware Act); provided, further, that the foregoing limitation shall not apply to (i) any Person or Group who acquired 20% or more of the Outstanding Partnership Interests of any class then Outstanding directly from the General Partner or its Affiliates (other than the Partnership), (ii) any Person or Group who acquired 20% or more of the Outstanding Partnership Interests of any class then Outstanding directly or indirectly from a Person or Group described in clause (i) provided that, at or prior to such acquisition, the General Partner shall have notified such Person or Group in writing that such limitation shall not apply, or (iii) any Person or Group who acquired 20% or more of any Partnership Interests issued by the Partnership provided that, at or prior to such acquisition, the General Partner shall have notified such Person or Group in writing that such limitation shall not apply.

**"Over-Allotment Option"** means the over-allotment option granted to the Underwriters by the Partnership pursuant to the Underwriting Agreement.

**"Partner Nonrecourse Debt"** has the meaning set forth in Treasury Regulation Section 1.704-2(b)(4).

**"Partner Nonrecourse Debt Minimum Gain"** has the meaning set forth in Treasury Regulation Section 1.704-2(i)(2).

**"Partner Nonrecourse Deductions"** means any and all items of loss, deduction or expenditure (including any expenditure described in Section 705(a)(2)(B) of the Code) that, in accordance with the principles of Treasury Regulation Section 1.704-2(i), are attributable to a Partner Nonrecourse Debt.

**"Partners"** means the General Partner and the Limited Partners.

**"Partnership"** means NGL Energy Partners LP, a Delaware limited partnership.

**"Partnership Group"** means the Partnership and its Subsidiaries treated as a single consolidated entity.

**"Partnership Interest"** means any class or series of equity interest in the Partnership (but excluding any options, rights, warrants and appreciation rights relating to an equity interest in the Partnership), including Common Units, Subordinated Units and Incentive Distribution Rights.

**"Partnership Minimum Gain"** means that amount determined in accordance with the principles of Treasury Regulation Sections 1.704-2(b)(2) and 1.704-2(d).

**"Percentage Interest"** means as of any date of determination (a) as to the General Partner, with respect to the General Partner Interest (calculated based upon a number of Notional General Partner Units), and as to any Unitholder with respect to Units, the product obtained by multiplying (i) 100% less the percentage applicable to clause (b) below by (ii) the quotient obtained by dividing (A) the number of Notional General Partner Units deemed held by the General Partner or the number of Units held by such Unitholder, as the case may be, by (B) the total number of Outstanding Units and Notional General

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Partner Units, and (b) as to the holders of other Partnership Interests issued by the Partnership in accordance with Section 5.6, the percentage established as a part of such issuance. The Percentage Interest with respect to an Incentive Distribution Right shall at all times be zero.

**"Person"** means an individual or a corporation, firm, limited liability company, partnership, joint venture, trust, unincorporated organization, association, government agency or political subdivision thereof or other entity.

**"Per Unit Capital Amount"** means, as of any date of determination, the Capital Account, stated on a per Unit basis, underlying any class of Units held by a Person other than the General Partner or any Affiliate of the General Partner who holds Units.

**"Plan of Conversion"** is defined in Section 14.1.

**"Pro Rata"** means (a) when used with respect to Units or any class thereof, apportioned equally among all designated Units in accordance with their relative Percentage Interests, (b) when used with respect to Partners or Record Holders, apportioned among all Partners or Record Holders in accordance with their relative Percentage Interests and (c) when used with respect to holders of Incentive Distribution Rights, apportioned equally among all holders of Incentive Distribution Rights in accordance with the relative number or percentage of Incentive Distribution Rights held by each such holder.

**"Purchase Date"** means the date determined by the General Partner as the date for purchase of all Outstanding Limited Partner Interests of a certain class (other than Limited Partner Interests owned by the General Partner and its Affiliates) pursuant to Article XV.

**"Quarter"** means, unless the context requires otherwise, a fiscal quarter of the Partnership, or, with respect to the fiscal quarter of the Partnership that includes the Closing Date, the portion of such fiscal quarter after the Closing Date.

**"Rate Eligibility Trigger"** is defined in Section 4.9(a)(i).

**"Recapture Income"** means any gain recognized by the Partnership (computed without regard to any adjustment required by Section 734 or Section 743 of the Code) upon the disposition of any property or asset of the Partnership, which gain is characterized as ordinary income because it represents the recapture of deductions previously taken with respect to such property or asset.

**"Record Date"** means the date established by the General Partner or otherwise in accordance with this Agreement for determining (a) the identity of the Record Holders entitled to notice of, or to vote at, any meeting of Limited Partners or entitled to vote by ballot or give approval of Partnership action in writing without a meeting or entitled to exercise rights in respect of any lawful action of Limited Partners or (b) the identity of Record Holders entitled to receive any report or distribution or to participate in any offer.

**"Record Holder"** means (a) with respect to Partnership Interests of any class of Partnership Interests for which a Transfer Agent has been appointed, the Person in whose name a Partnership Interest of such class is registered on the books of the Transfer Agent as of the opening of business on a particular Business Day, or (b) with respect to other classes of Partnership Interests, the Person in whose name any such other Partnership Interest is registered on the books that the General Partner has caused to be kept as of the opening of business on such Business Day.

**"Redeemable Interests"** means any Partnership Interests for which a redemption notice has been given, and has not been withdrawn, pursuant to Section 4.10.

**"Registration Statement"** means the Registration Statement on Form S-1 (Registration No. 333-172186) as it has been or as it may be amended or supplemented from time to time, filed by the Partnership with the Commission under the Securities Act to register the offering and sale of the Common Units in the Initial Public Offering.

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**"Remaining Net Positive Adjustments"** means as of the end of any taxable period, (i) with respect to the Unitholders holding Common Units or Subordinated Units, the excess of (a) the Net Positive Adjustments of the Unitholders holding Common Units or Subordinated Units as of the end of such period over (b) the sum of those Partners' Share of Additional Book Basis Derivative Items for each prior taxable period, (ii) with respect to the General Partner (as holder of the General Partner Interest), the excess of (a) the Net Positive Adjustments of the General Partner as of the end of such period over (b) the sum of the General Partner's Share of Additional Book Basis Derivative Items with respect to the General Partner Interest for each prior taxable period, and (iii) with respect to the holders of Incentive Distribution Rights, the excess of (a) the Net Positive Adjustments of the holders of Incentive Distribution Rights as of the end of such period over (b) the sum of the Share of Additional Book Basis Derivative Items of the holders of the Incentive Distribution Rights for each prior taxable period.

**"Required Allocations"** means any allocation of an item of income, gain, loss or deduction pursuant to Section 6.1(d)(i), Section 6.1(d)(ii), Section 6.1(d)(iv), Section 6.1(d)(v), Section 6.1(d)(vi), Section 6.1(d)(vii) or Section 6.1(d)(ix).

**"Reset MQD"** is defined in Section 5.11(a).

**"Reset Notice"** is defined in Section 5.11(b).

**"Retained Converted Subordinated Unit"** is defined in Section 5.5(c)(ii).

**"Second Liquidation Target Amount"** is defined in Section 6.1(c)(i)(E).

**"Second Target Distribution"** means 125% of the Minimum Quarterly Distribution.

**"Securities Act"** means the Securities Act of 1933, as amended, supplemented or restated from time to time and any successor to such statute.

**"Securities Exchange Act"** means the Securities Exchange Act of 1934, as amended, supplemented or restated from time to time and any successor to such statute.

**"Share of Additional Book Basis Derivative Items"** means in connection with any allocation of Additional Book Basis Derivative Items for any taxable period, (i) with respect to the Unitholders holding Common Units or Subordinated Units, the amount that bears the same ratio to such Additional Book Basis Derivative Items as the Unitholders' Remaining Net Positive Adjustments as of the end of such taxable period bears to the Aggregate Remaining Net Positive Adjustments as of that time, (ii) with respect to the General Partner (in respect of the General Partner Interest), the amount that bears the same ratio to such Additional Book Basis Derivative Items as the General Partner's Remaining Net Positive Adjustments as of the end of such taxable period bears to the Aggregate Remaining Net Positive Adjustment as of that time, and (iii) with respect to the Partners holding Incentive Distribution Rights, the amount that bears the same ratio to such Additional Book Basis Derivative Items as the Remaining Net Positive Adjustments of the Partners holding the Incentive Distribution Rights as of the end of such period bears to the Aggregate Remaining Net Positive Adjustments as of that time.

**"Special Approval"** means approval by a majority of the members of the Conflicts Committee acting in good faith.

**"Subordinated Unit"** means a Partnership Interest representing a fractional part of the Partnership Interests of all Limited Partners and having the rights and obligations specified with respect to Subordinated Units in this Agreement. The term "Subordinated Unit" does not refer to or include a Common Unit. A Subordinated Unit that is convertible into a Common Unit shall not constitute a Common Unit until such conversion occurs.

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"**Subordination Period**" means the period commencing on the Closing Date and ending on the first to occur of the following dates:

- (a) the first Business Day following the distribution of Available Cash to Partners pursuant to Section 6.3(a) in respect of any Quarter beginning with the first Quarter after the third anniversary of the Closing Date in respect of which (i) (A) distributions of Available Cash from Operating Surplus on each of (I) the Outstanding Common Units and Subordinated Units and any other Outstanding Units that are senior or equal in right of distribution to the Subordinated Units, and (II) the General Partner Interest, in each case with respect to each of the three consecutive, non-overlapping four-Quarter periods immediately preceding such date equaled or exceeded the sum of the Minimum Quarterly Distribution on (I) all Outstanding Common Units and Subordinated Units and any other Outstanding Units that are senior or equal in right of distribution to the Subordinated Units and (II) the General Partner Interest, in each case in respect of such periods and (B) the Adjusted Operating Surplus for each of the three consecutive, non-overlapping four-Quarter periods immediately preceding such date equaled or exceeded the sum of the Minimum Quarterly Distribution on all of the (I) Common Units, Subordinated Units and any other Units that are senior or equal in right of distribution to the Subordinated Units and (II) General Partner Interest, in each case that were Outstanding during such periods on a Fully Diluted Weighted Average Basis, and (ii) there are no Cumulative Common Unit Arrearages;
- (b) the first Business Day following the distribution of Available Cash to Partners pursuant to Section 6.3(a) in respect of any Quarter beginning with the first Quarter after the Closing Date in respect of which (i) (A) distributions of Available Cash from Operating Surplus on each of (I) the Outstanding Common Units and Subordinated Units and any other Outstanding Units that are senior or equal in right of distribution to the Subordinated Units, and (II) the General Partner Interest, in each case with respect to the four-Quarter period immediately preceding such date equaled or exceeded 150% of the Minimum Quarterly Distribution on all of (I) the Outstanding Common Units and Subordinated Units and any other Outstanding Units that are senior or equal in right of distribution to the Subordinated Units and (II) the General Partner Interest, in each case in respect of such period, and (B) the Adjusted Operating Surplus for the four-Quarter period immediately preceding such date equaled or exceeded 150% of the sum of the Minimum Quarterly Distribution on all of (I) the Common Units and Subordinated Units and any other Units that are senior or equal in right of distribution to the Subordinated Units, (II) the General Partner Interest, in each case that were Outstanding during such period on a Fully Diluted Weighted Average Basis and (III) and the corresponding Incentive Distributions and (ii) there are no Cumulative Common Unit Arrearages;
- (c) the first date on which there are no longer outstanding any Subordinated Units due to the conversion of Subordinated Units into Common Units pursuant to Section 5.7 or otherwise; and
- (d) the date on which the General Partner is removed as general partner of the Partnership upon the requisite vote by holders of Outstanding Units under circumstances where Cause does not exist and no Units held by the General Partner and its Affiliates are voted in favor of such removal.

"**Subsidiary**" means, with respect to any Person, (a) a corporation of which more than 50% of the voting power of shares entitled (without regard to the occurrence of any contingency) to vote in the election of directors or other governing body of such corporation is owned, directly or indirectly, at the date of determination, by such Person, by one or more Subsidiaries of such Person or a combination thereof, (b) a partnership (whether general or limited) in which such Person or a Subsidiary of such Person is, at the date of determination, a general or limited partner of such partnership, but only if more

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than 50% of the partnership interests of such partnership (considering all of the partnership interests of the partnership as a single class) is owned, directly or indirectly, at the date of determination, by such Person, by one or more Subsidiaries of such Person, or a combination thereof, or (c) any other Person (other than a corporation or a partnership) in which such Person, one or more Subsidiaries of such Person, or a combination thereof, directly or indirectly, at the date of determination, has (i) at least a majority ownership interest or (ii) the power to elect or direct the election of a majority of the directors or other governing body of such Person.

"**Surviving Business Entity**" is defined in Section 14.2(b)(ii).

"**Target Distribution**" means, collectively, the First Target Distribution, Second Target Distribution and Third Target Distribution.

"**Third Target Distribution**" means 150% of the Minimum Quarterly Distribution.

"**Trading Day**" means, for the purpose of determining the Current Market Price of any class of Limited Partner Interests, a day on which the principal National Securities Exchange on which such class of Limited Partner Interests is listed or admitted to trading is open for the transaction of business or, if Limited Partner Interests of a class are not listed or admitted to trading on any National Securities Exchange, a day on which banking institutions in New York City generally are open.

"**transfer**" is defined in Section 4.4(a).

"**transferee**" means a Person who has received Partnership Interests by means of a transfer.

"**Transfer Agent**" means such bank, trust company or other Person (including the General Partner or one of its Affiliates) as may be appointed from time to time by the Partnership to act as registrar and transfer agent for any class of Partnership Interests; provided, that if no Transfer Agent is specifically designated for any class of Partnership Interests, the General Partner shall act in such capacity.

"**Underwriter**" means each Person named as an underwriter in Schedule I to the Underwriting Agreement who purchases Common Units pursuant thereto.

"**Underwriting Agreement**" means that certain Underwriting Agreement, dated as of [ ], among the Underwriters, the Partnership, the General Partner and other parties thereto, providing for the purchase of Common Units by the Underwriters.

"**Unit**" means a Partnership Interest that is designated as a "Unit" and shall include Common Units and Subordinated Units but shall not include (i) the General Partner Interest or (ii) Incentive Distribution Rights.

"**Unit holders**" means the holders of Units.

"**Unit Majority**" means (i) during the Subordination Period, at least a majority of the Outstanding Common Units (excluding Common Units owned by the General Partner and its Affiliates), voting as a class, and at least a majority of the Outstanding Subordinated Units, voting as a class, and (ii) after the end of the Subordination Period, at least a majority of the Outstanding Common Units, voting as a single class.

"**Unpaid MQD**" is defined in Section 6.1(c)(i)(B).

"**Unrealized Gain**" attributable to any item of Partnership property means, as of any date of determination, the excess, if any, of (a) the fair market value of such property as of such date (as determined under Section 5.5(d)) over (b) the Carrying Value of such property as of such date (prior to any adjustment to be made pursuant to Section 5.5(d) as of such date).

"**Unrealized Loss**" attributable to any item of Partnership property means, as of any date of determination, the excess, if any, of (a) the Carrying Value of such property as of such date (prior to any

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adjustment to be made pursuant to Section 5.5(d) as of such date) over (b) the fair market value of such property as of such date (as determined under Section 5.5(d)).

**"Unrecovered Initial Unit Price"** means at any time, with respect to a Unit, the Initial Unit Price less the sum of all distributions constituting Capital Surplus theretofore made in respect of an Initial Common Unit and any distributions of cash (or the Net Agreed Value of any distributions in kind) in connection with the dissolution and liquidation of the Partnership theretofore made in respect of an Initial Common Unit, adjusted as the General Partner determines to be appropriate to give effect to any distribution, subdivision, combination or reorganization of such Units.

**"U.S. GAAP"** means United States generally accepted accounting principles, as in effect from time to time, consistently applied.

**"Withdrawal Opinion of Counsel"** is defined in Section 11.1(b)(i).

**"Working Capital Borrowings"** means borrowings used solely for working capital purposes or to pay distributions to Partners, made pursuant to a credit facility, commercial paper facility or other similar financing arrangement; provided that when such borrowings are incurred it is the intent of the borrower to repay such borrowings within 12 months from sources other than additional Working Capital Borrowings.

**Section 1.2 Construction.** Unless the context requires otherwise: (a) any pronoun used in this Agreement shall include the corresponding masculine, feminine or neuter forms; (b) references to Articles and Sections refer to Articles and Sections of this Agreement; (c) the terms "include", "includes", "including" or words of like import shall be deemed to be followed by the words "without limitation"; and (d) the terms "hereof", "herein" or "hereunder" refer to this Agreement as a whole and not to any particular provision of this Agreement. The headings contained in this Agreement are for reference purposes only, and shall not affect in any way the meaning or interpretation of this Agreement.

## ARTICLE II

### ORGANIZATION

**Section 2.1 Formation.** The General Partner and the Initial Limited Partners hereby amend and restate the First Amended and Restated Partnership Agreement in its entirety. This amendment and restatement shall become effective on the date of this Agreement. Except as expressly provided to the contrary in this Agreement, the rights, duties (including fiduciary duties), liabilities and obligations of the Partners and the administration, dissolution and termination of the Partnership shall be governed by the Delaware Act. All Partnership Interests shall constitute personal property of the owner thereof for all purposes.

**Section 2.2 Name.** The name of the Partnership shall be "NGL Energy Partners LP". The Partnership's business may be conducted under any other name or names as determined by the General Partner, including the name of the General Partner. The words "Limited Partnership," "LP," "L.P.," "Ltd." or similar words or letters shall be included in the Partnership's name where necessary for the purpose of complying with the laws of any jurisdiction that so requires. The General Partner may change the name of the Partnership at any time and from time to time and shall notify the Limited Partners of such change in the next regular communication to the Limited Partners.

**Section 2.3 Registered Office; Registered Agent; Principal Office; Other Offices.** Unless and until changed by the General Partner, the registered office of the Partnership in the State of Delaware shall be located at 1209 Orange Street, Wilmington, New Castle County, Delaware 19801, and the registered agent for service of process on the Partnership in the State of Delaware at such registered office shall be The Corporation Trust Company. The principal office of the Partnership shall be located at 6120 S. Yale, Suite 805, Tulsa, OK 74136, or such other place as the General Partner may from time to time designate by notice to the Limited Partners. The Partnership may maintain offices at such other place or places

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within or outside the State of Delaware as the General Partner determines to be necessary or appropriate. The address of the General Partner shall be 6120 S. Yale, Suite 805, Tulsa, OK 74136, or such other place as the General Partner may from time to time designate by notice to the Limited Partners.

*Section 2.4 Purpose and Business.* The purpose and nature of the business to be conducted by the Partnership shall be to (a) engage directly in, or enter into or form, hold and dispose of any corporation, partnership, joint venture, limited liability company or other arrangement to engage indirectly in, any business activity that is approved by the General Partner, in its sole discretion, and that lawfully may be conducted by a limited partnership organized pursuant to the Delaware Act and, in connection therewith, to exercise all of the rights and powers conferred upon the Partnership pursuant to the agreements relating to such business activity, and (b) do anything necessary or appropriate to the foregoing, including the making of capital contributions or loans to a Group Member; provided, however, that the General Partner shall not cause the Partnership to engage, directly or indirectly, in any business activity that the General Partner determines would be reasonably likely to cause the Partnership to be treated as an association taxable as a corporation or otherwise taxable as an entity for federal income tax purposes. To the fullest extent permitted by law, the General Partner shall have no duty or obligation to propose or approve, and may, in its sole discretion, decline to propose or approve, the conduct by the Partnership of any business.

*Section 2.5 Powers.* The Partnership shall be empowered to do any and all acts and things necessary, appropriate, proper, advisable, incidental to or convenient for the furtherance and accomplishment of the purposes and business described in Section 2.4 and for the protection and benefit of the Partnership.

*Section 2.6 Term.* The term of the Partnership commenced upon the filing of the Certificate of Limited Partnership in accordance with the Delaware Act and shall continue in existence until the dissolution of the Partnership in accordance with the provisions of Article XII. The existence of the Partnership as a separate legal entity shall continue until the cancellation of the Certificate of Limited Partnership as provided in the Delaware Act.

*Section 2.7 Title to Partnership Assets.* Title to Partnership assets, whether real, personal or mixed and whether tangible or intangible, shall be deemed to be owned by the Partnership as an entity and/or its Subsidiaries, and no Partner, individually or collectively, shall have any ownership interest in such Partnership assets or any portion thereof. Title to any or all of the Partnership assets may be held in the name of the Partnership, the General Partner, one or more of its Affiliates or one or more nominees, as the General Partner may determine. The General Partner hereby declares and warrants that any Partnership assets for which record title is held in the name of the General Partner or one or more of its Affiliates or one or more nominees shall be held by the General Partner or such Affiliate or nominee for the use and benefit of the Partnership in accordance with the provisions of this Agreement; provided, however, that the General Partner shall use reasonable efforts to cause record title to such assets (other than those assets in respect of which the General Partner determines that the expense and difficulty of conveyancing makes transfer of record title to the Partnership impracticable) to be vested in the Partnership as soon as reasonably practicable; provided, further, that, prior to the withdrawal or removal of the General Partner or as soon thereafter as practicable, the General Partner shall use reasonable efforts to effect the transfer of record title to the Partnership and, prior to any such transfer, will provide for the use of such assets in a manner satisfactory to the General Partner. All Partnership assets shall be recorded as the property of the Partnership in its books and records, irrespective of the name in which record title to such Partnership assets is held.

### ARTICLE III

#### RIGHTS OF LIMITED PARTNERS

*Section 3.1 Limitation of Liability.* The Limited Partners shall have no liability under this Agreement except as expressly provided in this Agreement or the Delaware Act.



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*Section 3.2 Management of Business.* No Limited Partner, in its capacity as such, shall participate in the operation, management or control (within the meaning of the Delaware Act) of the Partnership's business, transact any business in the Partnership's name or have the power to sign documents for or otherwise bind the Partnership. Any action taken by any Affiliate of the General Partner or any officer, director, employee, manager, member, general partner, agent or trustee of the General Partner or any of its Affiliates, or any officer, director, employee, manager, member, general partner, agent or trustee of a Group Member, in its capacity as such, shall not be deemed to be participation in the control of the business of the Partnership by a limited partner of the Partnership (within the meaning of Section 17-303(a) of the Delaware Act) and shall not affect, impair or eliminate the limitations on the liability of the Limited Partners under this Agreement.

*Section 3.3 Outside Activities of the Limited Partners.* Subject to the provisions of Section 7.5, which shall continue to be applicable to the Persons referred to therein, regardless of whether such Persons shall also be Limited Partners, any Limited Partner shall be entitled to and may have business interests and engage in business activities outside of and in addition to those relating to the Partnership, including business interests and activities in direct competition with the Partnership Group. Neither the Partnership nor any of the other Partners shall have any rights by virtue of this Agreement in any outside business ventures of any Limited Partner.

*Section 3.4 Rights of Limited Partners.*

(a)

In addition to other rights provided by this Agreement or by applicable law, and except as limited by Section 3.4(b), each Limited Partner shall have the right, for a purpose reasonably related to such Limited Partner's interest as a Limited Partner in the Partnership, the reasonableness of which having been determined by the General Partner, upon reasonable written demand stating the purpose of such demand, and at such Limited Partner's own expense:

(i)

to obtain true and full information regarding the status of the business and financial condition of the Partnership;

(ii)

promptly after its becoming available, to obtain a copy of the Partnership's federal, state and local income tax returns for each year;

(iii)

to obtain a current list of the name and last known business, residence or mailing address of each Partner;

(iv)

to obtain a copy of this Agreement and the Certificate of Limited Partnership and all amendments thereto, together with copies of the executed copies of all powers of attorney pursuant to which this Agreement, the Certificate of Limited Partnership and all amendments thereto have been executed;

(v)

to obtain true and full information regarding the amount of cash and a description and statement of the Net Agreed Value of any other Capital Contribution by each Partner and that each Partner has agreed to contribute in the future, and the date on which each became a Partner; and

(vi)

to obtain such other information regarding the affairs of the Partnership as is just and reasonable.

(b)

The General Partner may keep confidential from the Limited Partners, for such period of time as the General Partner deems reasonable, (i) any information that the General Partner reasonably believes to be in the nature of trade secrets or (ii) other information the disclosure of which the General Partner believes (A) is not in the best interests of the Partnership Group, (B) could damage the Partnership Group or its business or (C) that any Group Member is required by law or by agreement with any third party to keep confidential (other than agreements with Affiliates of the Partnership where the primary purpose is to circumvent the obligations set forth in this Section 3.4).

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**ARTICLE IV**

**CERTIFICATES; RECORD HOLDERS; TRANSFER OF PARTNERSHIP INTERESTS; REDEMPTION OF PARTNERSHIP INTERESTS**

*Section 4.1 Certificates.* Notwithstanding anything otherwise to the contrary herein, unless the General Partner shall determine otherwise in respect of some or all of any or all classes of Partnership Interests, Partnership Interests shall not be evidenced by certificates. Certificates that may be issued shall be executed on behalf of the Partnership by the Chairman of the Board, President or any Executive Vice President or Vice President and the Chief Financial Officer or the Secretary or any Assistant Secretary of the General Partner. If a Transfer Agent has been appointed for a class of Partnership Interests, no Certificate for such class of Partnership Interests shall be valid for any purpose until it has been countersigned by the Transfer Agent; provided, however, that if the General Partner elects to cause the Partnership to issue Partnership Interests of such class in global form, the Certificate shall be valid upon receipt of a certificate from the Transfer Agent certifying that the Partnership Interests have been duly registered in accordance with the directions of the Partnership. Subject to the requirements of Section 6.7(c), if Common Units are evidenced by Certificates, on or after the date on which Subordinated Units are converted into Common Units pursuant to the terms of Section 5.7, the Record Holders of such Subordinated Units (i) if the Subordinated Units are evidenced by Certificates, may exchange such Certificates for Certificates evidencing Common Units or (ii) if the Subordinated Units are not evidenced by Certificates, shall be issued Certificates evidencing Common Units.

*Section 4.2 Mutilated, Destroyed, Lost or Stolen Certificates.*

- (a) If any mutilated Certificate is surrendered to the Transfer Agent, the appropriate officers of the General Partner on behalf of the Partnership shall execute, and the Transfer Agent shall countersign and deliver in exchange therefor, a new Certificate evidencing the same number and type of Partnership Interests as the Certificate so surrendered.
- (b) The appropriate officers of the General Partner on behalf of the Partnership shall execute and deliver, and the Transfer Agent shall countersign, a new Certificate in place of any Certificate previously issued if the Record Holder of the Certificate:
  - (i) makes proof by affidavit, in form and substance satisfactory to the General Partner, that a previously issued Certificate has been lost, destroyed or stolen;
  - (ii) requests the issuance of a new Certificate before the General Partner has notice that the Certificate has been acquired by a purchaser for value in good faith and without notice of an adverse claim;
  - (iii) if requested by the General Partner, delivers to the General Partner a bond, in form and substance satisfactory to the General Partner, with surety or sureties and with fixed or open penalty as the General Partner may direct to indemnify the Partnership, the Partners, the General Partner and the Transfer Agent against any claim that may be made on account of the alleged loss, destruction or theft of the Certificate; and
  - (iv) satisfies any other reasonable requirements imposed by the General Partner.

If a Limited Partner fails to notify the General Partner within a reasonable period of time after such Limited Partner has notice of the loss, destruction or theft of a Certificate, and a transfer of the Limited Partner Interests represented by the Certificate is registered before the Partnership, the General Partner or the Transfer Agent receives such notification, the Limited Partner shall be precluded from making any claim against the Partnership, the General Partner or the Transfer Agent for such transfer or for a new Certificate.
- (c) As a condition to the issuance of any new Certificate under this Section 4.2, the General Partner may require the Record Holder to pay a sum sufficient to cover any tax or other



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governmental charge that may be imposed in relation thereto and any other expenses (including the fees and expenses of the Transfer Agent) reasonably connected therewith.

*Section 4.3 Record Holders.* The Partnership shall be entitled to recognize the Record Holder as the Partner with respect to any Partnership Interest and, accordingly, shall not be bound to recognize any equitable or other claim to, or interest in, such Partnership Interest on the part of any other Person, regardless of whether the Partnership shall have actual or other notice thereof, except as otherwise provided by law or any applicable rule, regulation, guideline or requirement of any National Securities Exchange on which such Partnership Interests are listed or admitted to trading. Without limiting the foregoing, when a Person (such as a broker, dealer, bank, trust company or clearing corporation or an agent of any of the foregoing) is acting as nominee, agent or in some other representative capacity for another Person in acquiring and/or holding Partnership Interests, as between the Partnership on the one hand, and such other Persons on the other, such representative Person shall be (a) the Record Holder of such Partnership Interest and (b) bound by this Agreement and shall have the rights and obligations of a Partner hereunder as, and to the extent, provided herein.

*Section 4.4 Transfer Generally.*

(a)

The term "transfer," when used in this Agreement with respect to a Partnership Interest, shall mean a transaction (i) by which the General Partner assigns its General Partner Interest to another Person or by which a holder of Incentive Distribution Rights assigns its Incentive Distribution Rights to another Person, and includes a sale, assignment, gift, pledge, encumbrance, hypothecation, mortgage, exchange or any other disposition by law or otherwise or (ii) by which the holder of a Limited Partner Interest (other than an Incentive Distribution Right) makes any direct or indirect transfer, sale, assignment, gift, pledge, encumbrance, hypothecation, mortgage, exchange or any other disposition by law or otherwise and, without limiting the generality of the foregoing, with respect to any Person that is not a natural person, any distribution, transfer, assignment or other disposition of any Limited Partner Interest, whether voluntary, involuntary or pursuant to any dissolution, liquidation or termination of such Person, to such Person's members, shareholders, partners or other interestholders shall constitute a "transfer" of a Limited Partner Interest (for the avoidance of doubt, with respect to a Limited Partner that is not a natural person, any transfer, sale, assignment, gift, pledge, encumbrance, hypothecation, mortgage, exchange or other disposition of any interest in such Limited Partner, by such Limited Partner or any interestholder of such Limited Partner shall be deemed to be an indirect transfer of a Limited Partner Interest hereunder).

(b)

No Partnership Interest shall be transferred, in whole or in part, except in accordance with the terms and conditions set forth in this Article IV. Any transfer or purported transfer of a Partnership Interest not made in accordance with this Article IV shall be, to the fullest extent permitted by law, null and void. Except as provided in Section 4.8(c) below, but notwithstanding the other provisions of this Article IV, no transfer of any Partnership Interests shall be made if such transfer would (i) violate the then applicable federal or state securities laws or rules and regulations of the Commission, any state securities commission or any other governmental authority with jurisdiction over such transfer, (ii) terminate the existence or qualification of the Partnership under the laws of the jurisdiction of its formation, (iii) cause the Partnership to be treated as an association taxable as a corporation or otherwise to be taxed as an entity for federal income tax purposes (to the extent not already so treated or taxed), or (iv) constitute a breach or violation of, or a change of control or event of default under, any credit agreement, loan agreement, indenture, mortgage, deed of trust or other similar instrument or document governing indebtedness for borrowed money of the Partnership or any Group Member.

(c)

Nothing contained in this Agreement shall be construed to prevent a disposition by any stockholder, member, partner or other owner of the General Partner of any or all of the

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shares of stock, membership interests, partnership interests or other ownership interests in the General Partner, and the term "transfer" shall not mean any such disposition.

*Section 4.5 Registration and Transfer of Limited Partner Interests.*

- (a) The General Partner shall keep or cause to be kept on behalf of the Partnership a register in which, subject to such reasonable regulations as it may prescribe and subject to the provisions of Section 4.5(b), the Partnership will provide for the registration and transfer of Limited Partner Interests.
- (b) The Partnership shall not recognize any transfer of Limited Partner Interests evidenced by Certificates until the Certificates evidencing such Limited Partner Interests are surrendered for registration of transfer. No charge shall be imposed by the General Partner for such transfer; provided, that as a condition to the issuance of any new Certificate under this Section 4.5, the General Partner may require the Record Holder to pay a sum sufficient to cover any tax or other governmental charge that may be imposed with respect thereto. Upon surrender of a Certificate for registration of transfer of any Limited Partner Interests evidenced by a Certificate, and subject to the provisions hereof, the appropriate officers of the General Partner on behalf of the Partnership shall execute and deliver, and in the case of Certificates evidencing Limited Partner Interests for which a Transfer Agent has been appointed, the Transfer Agent shall countersign and deliver, in the name of the holder or the designated transferee or transferees, as required pursuant to the holder's instructions, one or more new Certificates evidencing the same aggregate number and type of Limited Partner Interests as was evidenced by the Certificate so surrendered.
- (c) By acceptance of the transfer of any Limited Partner Interests in accordance with this Section 4.5 and except as provided in Section 4.9, each transferee of a Limited Partner Interest (including any nominee holder or an agent or representative acquiring such Limited Partner Interests for the account of another Person) (i) shall be admitted to the Partnership as a Limited Partner with respect to the Limited Partner Interests so transferred to such Person when any such transfer or admission is reflected in the books and records of the Partnership and such Limited Partner becomes the Record Holder of the Limited Partner Interests so transferred, (ii) shall become bound, and shall be deemed to have agreed to be bound, by the terms of this Agreement, (iii) represents that the transferee has the capacity, power and authority to enter into this Agreement and (iv) makes the consents, acknowledgements and waivers contained in this Agreement, all with or without execution of this Agreement by such Person. The transfer of any Limited Partner Interests and the admission of any new Limited Partner shall not constitute an amendment to this Agreement.
- (d) Subject to (i) the foregoing provisions of this Section 4.5, (ii) Section 4.3, (iii) Section 4.8, (iv) with respect to any class or series of Limited Partner Interests, the provisions of any statement of designations or an amendment to this Agreement establishing such class or series, (v) any contractual provisions binding on any Limited Partner and (vi) provisions of applicable law including the Securities Act, Limited Partner Interests (other than the Incentive Distribution Rights) shall be freely transferable.
- (e) The General Partner shall have the right at any time to transfer its Subordinated Units and Common Units (whether issued upon conversion of the Subordinated Units or otherwise) to one or more Persons.

*Section 4.6 Transfer of the General Partner's General Partner Interest.*

- (a) Subject to Section 4.6(c) below, prior to the first day of the first Quarter beginning after the tenth anniversary of the Closing Date, the General Partner shall not transfer all or any part of its General Partner Interest to a Person unless such transfer (i) has been approved by the

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prior written consent or vote of the holders of at least a majority of the Outstanding Common Units (excluding Common Units held by the General Partner and its Affiliates) or (ii) is of all, but not less than all, of its General Partner Interest to (A) an Affiliate of the General Partner (other than an individual) or (B) another Person (other than an individual) in connection with the merger or consolidation of the General Partner with or into such other Person or the transfer by the General Partner of all or substantially all of its assets to such other Person.

(b)

Subject to Section 4.6(c) below, on or after the first day of the first Quarter beginning after the tenth anniversary of the Closing Date, the General Partner may at its option transfer all or any part of its General Partner Interest without Unitholder approval.

(c)

Notwithstanding anything herein to the contrary, no transfer by the General Partner of all or any part of its General Partner Interest to another Person shall be permitted unless (i) the transferee agrees to assume the rights and duties of the General Partner under this Agreement and to be bound by the provisions of this Agreement, (ii) the Partnership receives an Opinion of Counsel that such transfer would not result in the loss of limited liability under the Delaware Act of any Limited Partner or cause the Partnership to be treated as an association taxable as a corporation or otherwise to be taxed as an entity for federal income tax purposes (to the extent not already so treated or taxed) and (iii) such transferee also agrees to purchase all (or the appropriate portion thereof, if applicable) of the partnership or membership interest held by the General Partner as the general partner or managing member, if any, of each other Group Member. In the case of a transfer pursuant to and in compliance with this Section 4.6, the transferee or successor (as the case may be) shall, subject to compliance with the terms of Section 10.2, be admitted to the Partnership as the General Partner effective immediately prior to the transfer of the General Partner Interest, and the business of the Partnership shall continue without dissolution.

*Section 4.7 Transfer of Incentive Distribution Rights.* Prior to the first day of the first Quarter beginning after the tenth anniversary of the Closing Date, a holder of Incentive Distribution Rights may only transfer any or all of the Incentive Distribution Rights held by such holder without any consent of the Unitholders to (a) an Affiliate of such holder (other than an individual), or (b) another Person (other than an individual) in connection with (i) the merger or consolidation of such holder of Incentive Distribution Rights with or into such other Person, (ii) the transfer by such holder of all or substantially all of its assets to such other Person, (iii) the sale of all the ownership interests in such holder or (iv) the pledge, encumbrance, hypothecation or mortgage of the Incentive Distribution Rights in favor a Person providing bona fide debt financing to such holder as security or collateral for such debt financing and the transfer of Incentive Distribution Rights in connection with the exercise of any remedy of such Person in connection therewith, provided, that such holder entered into such debt financing transaction in good faith for a valid purpose other than the intent to circumvent the restrictions on transfer of Incentive Distribution Rights that would otherwise have applied. Any other transfer of the Incentive Distribution Rights prior to the first day of the first Quarter beginning after the tenth anniversary of the Closing Date shall require the prior approval of holders of at least a majority of the Outstanding Common Units (excluding Common Units held by the General Partner and its Affiliates). On or after the first day of the first Quarter beginning after the tenth anniversary of the Closing Date, the General Partner or any other holder of Incentive Distribution Rights may transfer any or all of its Incentive Distribution Rights without Unitholder approval. Notwithstanding anything herein to the contrary, (i) the transfer of Common Units issued pursuant to Section 5.11 shall not be treated as a transfer of all or any part of the Incentive Distribution Rights and (ii) no transfer of Incentive Distribution Rights to another Person shall be permitted unless the transferee agrees to be bound by the provisions of this Agreement; provided, that no such agreement shall be required for the pledge, encumbrance, hypothecation or mortgage of the Incentive Distribution Rights.

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*Section 4.8 Restrictions on Transfers of Limited Partner Interests.*

- (a) The General Partner may impose restrictions on the transfer of Partnership Interests if it determines, with the advice of counsel, that such restrictions are necessary or advisable to (i) avoid a significant risk of the Partnership becoming taxable as a corporation or otherwise becoming taxable as an entity for federal income tax purposes or (ii) preserve the uniformity of the Limited Partner Interests (or any class or classes thereof). The General Partner may impose such restrictions by amending this Agreement pursuant to Section 13.1; provided, however, that any amendment that would result in the delisting or suspension of trading of any class of Limited Partner Interests on the principal National Securities Exchange on which such class of Limited Partner Interests is then listed or admitted to trading must be approved, prior to such amendment being effected, by the holders of at least a majority of the Outstanding Limited Partner Interests of such class.
- (b) In addition to the restrictions in this Section 4.8, the transfer of a Subordinated Unit that has converted into a Common Unit shall be subject to the restrictions imposed by Section 6.7.
- (c) Nothing contained in this Article IV, or elsewhere in this Agreement, shall preclude the settlement of any transactions involving Partnership Interests entered into through the facilities of any National Securities Exchange on which such Partnership Interests are listed or admitted to trading.
- (d) Each certificate evidencing Partnership Interests shall bear a conspicuous legend in substantially the following form:

THE HOLDER OF THIS SECURITY ACKNOWLEDGES FOR THE BENEFIT OF NGL ENERGY PARTNERS LP THAT THIS SECURITY MAY NOT BE SOLD, OFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED IF SUCH TRANSFER WOULD (A) VIOLATE THE THEN APPLICABLE FEDERAL OR STATE SECURITIES LAWS OR RULES AND REGULATIONS OF THE SECURITIES AND EXCHANGE COMMISSION, ANY STATE SECURITIES COMMISSION OR ANY OTHER GOVERNMENTAL AUTHORITY WITH JURISDICTION OVER SUCH TRANSFER, (B) TERMINATE THE EXISTENCE OR QUALIFICATION OF NGL ENERGY PARTNERS LP UNDER THE LAWS OF THE STATE OF DELAWARE, OR (C) CAUSE NGL ENERGY PARTNERS LP, TO BE TREATED AS AN ASSOCIATION TAXABLE AS A CORPORATION OR OTHERWISE TO BE TAXED AS AN ENTITY FOR FEDERAL INCOME TAX PURPOSES (TO THE EXTENT NOT ALREADY SO TREATED OR TAXED). NGL ENERGY HOLDINGS LLC, THE GENERAL PARTNER OF NGL ENERGY PARTNERS LP, MAY IMPOSE ADDITIONAL RESTRICTIONS ON THE TRANSFER OF THIS SECURITY IF IT RECEIVES AN OPINION OF COUNSEL THAT SUCH RESTRICTIONS ARE NECESSARY TO (A) AVOID A SIGNIFICANT RISK OF NGL ENERGY PARTNERS LP BECOMING TAXABLE AS A CORPORATION OR OTHERWISE BECOMING TAXABLE AS AN ENTITY FOR FEDERAL INCOME TAX PURPOSES OR (B) IN THE CASE OF LIMITED PARTNER INTERESTS, TO PRESERVE THE UNIFORMITY THEREOF (OR ANY CLASS OR CLASSES OF LIMITED PARTNER INTERESTS). THE RESTRICTIONS SET FORTH ABOVE SHALL NOT PRECLUDE THE SETTLEMENT OF ANY TRANSACTIONS INVOLVING THIS SECURITY ENTERED INTO THROUGH THE FACILITIES OF ANY NATIONAL SECURITIES EXCHANGE ON WHICH THIS SECURITY IS LISTED OR ADMITTED TO TRADING.

*Section 4.9 Eligibility Certificates; Ineligible Holders.*

- (a) If at any time the General Partner determines, with the advice of counsel, that
  - (i) the Partnership's status other than as an association taxable as a corporation for U.S. federal income tax purposes or the failure of the Partnership otherwise to be subject to an entity-level tax for U.S. federal, state or local income tax purposes, coupled with the

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tax status (or lack of proof of the federal income tax status) of one or more Limited Partners, has or will reasonably likely have a material adverse effect on the maximum applicable rate that can be charged to customers by Subsidiaries of the Partnership (a "**Rate Eligibility Trigger**"), or

- (ii) any Group Member is subject to any federal, state or local law or regulation that would create a substantial risk of cancellation or forfeiture of any property in which the Group Member has an interest based on the nationality, citizenship or other related status of a Limited Partner (a "**Citizenship Eligibility Trigger**");

then, the General Partner may adopt such amendments to this Agreement as it determines to be necessary or advisable to (x) in the case of a Rate Eligibility Trigger, obtain such proof of the federal income tax status of the Limited Partners and, to the extent relevant, their beneficial owners, as the General Partner determines to be necessary to establish those Limited Partners whose federal income tax status does not or would not have a material adverse effect on the maximum applicable rate that can be charged to customers by Subsidiaries of the Partnership or (y) in the case of a Citizenship Eligibility Trigger, obtain such proof of the nationality, citizenship or other related status (or, if the General Partner is a nominee holding for the account of another Person, the nationality, citizenship or other related status of such Person) of the Limited Partner as the General Partner determines to be necessary to establish and those Limited Partners whose status as a Limited Partner does not or would not subject any Group Member to a significant risk of cancellation or forfeiture of any of its properties or interests therein.

- (b) Such amendments may include provisions requiring all Limited Partners to certify as to their (and their beneficial owners') status as Eligible Holders upon demand and on a regular basis, as determined by the General Partner, and may require transferees of Units to so certify prior to being admitted to the Partnership as a Limited Partner (any such required certificate, an "**Eligibility Certificate**").
- (c) Such amendments may provide that any Limited Partner who fails to furnish to the General Partner within a reasonable period requested proof of its (and its beneficial owners') status as an Eligible Holder or if upon receipt of such Eligibility Certificate or other requested information the General Partner determines that a Limited Partner is not an Eligible Holder (such a Limited Partner an "**Ineligible Holder**"), the Limited Partner Interests owned by such Limited Partner shall be subject to redemption in accordance with the provisions of Section 4.10. In addition, the General Partner shall be substituted for all Limited Partners that are Ineligible Holder as the Limited Partner in respect of the Ineligible Holder's Limited Partner Interests.
- (d) The General Partner shall, in exercising voting rights in respect of Limited Partner Interests held by it on behalf of Ineligible Holders, distribute the votes in the same ratios as the votes of Limited Partners (including the General Partner and its Affiliates) in respect of Limited Partner Interests other than those of Ineligible Holders are cast, either for, against or abstaining as to the matter.
- (e) Upon dissolution of the Partnership, an Ineligible Holder shall have no right to receive a distribution in kind pursuant to Section 12.4 but shall be entitled to the cash equivalent thereof, and the Partnership shall provide cash in exchange for an assignment of the Ineligible Holder's share of any distribution in kind. Such payment and assignment shall be treated for Partnership purposes as a purchase by the Partnership from the Ineligible Holder of his Limited Partner Interest (representing his right to receive his share of such distribution in kind).



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(f)

At any time after an Ineligible Holder can and does certify that he has become an Eligible Holder, an Ineligible Holder may, upon application to the General Partner, request that with respect to any Limited Partner Interests of such Ineligible Holder not redeemed pursuant to Section 4.10, such Ineligible Holder be admitted as a Limited Partner, and upon approval of the General Partner, such Ineligible Holder shall be admitted as a Limited Partner and shall no longer constitute an Ineligible Holder and the General Partner shall cease to be deemed to be the Limited Partner in respect of the Ineligible Holder's Limited Partner Interests.

*Section 4.10 Redemption of Partnership Interests of Ineligible Holders.*

(a)

If at any time a Limited Partner fails to furnish an Eligibility Certification or other information requested within a reasonable period of time specified in amendments adopted pursuant to Section 4.9, or if upon receipt of such Eligibility Certification or other information the General Partner determines, with the advice of counsel, that a Limited Partner is an Ineligible Holder, the Partnership may, unless the Limited Partner establishes to the satisfaction of the General Partner that such Limited Partner is not an Ineligible Holder or has transferred his Limited Partner Interests to a Person who is an Eligible Holder and who furnishes an Eligibility Certification to the General Partner prior to the date fixed for redemption as provided below, redeem the Limited Partner Interest of such Limited Partner as follows:

(i)

The General Partner shall, not later than the 30th day before the date fixed for redemption, give notice of redemption to the Limited Partner, at his last address designated on the records of the Partnership or the Transfer Agent, by registered or certified mail, postage prepaid. The notice shall be deemed to have been given when so mailed. The notice shall specify the Redeemable Interests, the date fixed for redemption, the place of payment, that payment of the redemption price will be made upon redemption of the Redeemable Interests (or, if later in the case of Redeemable Interests evidenced by Certificates, upon surrender of the Certificate evidencing the Redeemable Interests, and that on and after the date fixed for redemption no further allocations or distributions to which the Limited Partner would otherwise be entitled in respect of the Redeemable Interests will accrue or be made).

(ii)

The aggregate redemption price for Redeemable Interests shall be an amount equal to the Current Market Price (the date of determination of which shall be the date fixed for redemption) of Limited Partner Interests of the class to be so redeemed multiplied by the number of Limited Partner Interests of each such class included among the Redeemable Interests. The redemption price shall be paid, as determined by the General Partner, in cash or by delivery of a promissory note of the Partnership in the principal amount of the redemption price, bearing interest at the rate of 5% annually and payable in three equal annual installments of principal together with accrued interest, commencing one year after the redemption date.

(iii)

The Limited Partner or his duly authorized representative shall be entitled to receive the payment for the Redeemable Interests at the place of payment specified in the notice of redemption on the redemption date (or, if later in the case of Redeemable Interests evidenced by Certificates, upon surrender by or on behalf of the Limited Partner or Transferee at the place specified in the notice of redemption, of the Certificate evidencing the Redeemable Interests, duly endorsed in blank or accompanied by an assignment duly executed in blank).

(iv)

After the redemption date, Redeemable Interests shall no longer constitute issued and Outstanding Limited Partner Interests.

(b)

The provisions of this Section 4.10 shall also be applicable to Limited Partner Interests held by a Limited Partner as nominee of a Person determined to be other than an Eligible Holder.

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(c)

Nothing in this Section 4.10 shall prevent the recipient of a notice of redemption from transferring his Limited Partner Interest before the redemption date if such transfer is otherwise permitted under this Agreement. Upon receipt of notice of such a transfer, the General Partner shall withdraw the notice of redemption, provided the transferee of such Limited Partner Interest certifies to the satisfaction of the General Partner that he is an Eligible Holder. If the transferee fails to make such certification, such redemption shall be effected from the transferee on the original redemption date.

**ARTICLE V**

**CAPITAL CONTRIBUTIONS AND ISSUANCE OF PARTNERSHIP INTERESTS**

*Section 5.1 Contributions by the General Partner and the Initial Limited Partners.*

In connection with the execution of and as set forth in the First Amended and Restated Partnership Agreement, (i) the General Partner made a capital contribution to the Partnership in exchange for a continuation of its General Partner Interest equal to a 0.1% Percentage Interest (2,941 Notional General Partner Units prior to giving effect to the subdivision and conversion described in Section 5.2(a)) and the Incentive Distribution Rights and (ii) the Initial Limited Partners made capital contributions to the Partnership in exchange for an aggregate Limited Partnership Interest equal to a 99.9% Percentage Interest (an aggregate of 2,937,631 Common Units prior to giving effect to the subdivision and conversion described in Section 5.2(a)).

*Section 5.2 Common Unit Split and Conversion of Subordinated Units*

(a)

On the Closing Date and immediately prior to the closing of the Initial Public Offering and effective as of the effectiveness of this Agreement, (i) each Common Unit held by the Initial Limited Partners will be subdivided into 3.7219 Common Units resulting in a total of 10,933,568 Common Units then outstanding and held by the Initial Limited Partners and (ii) 54.139207% of the Common Units then held immediately following the subdivision pursuant to Section 5.2(a)(i) by each of the Initial Limited Partners will be converted (and any fractional units will be rounded in the same manner as contemplated by Section 5.6(d)) into an aggregate total of 5,919,346 Subordinated Units.

(b)

Upon the issuance of any additional Limited Partner Interests by the Partnership (other than the Common Units issued in connection with the subdivision of Common Units pursuant to Section 5.2(a), Subordinated Units issued in connection with the conversion of Common Units to Subordinated Units pursuant to Section 5.2(a) and any Common Units issued pursuant to Section 5.11), the General Partner may, in order to maintain its Percentage Interest, make additional Capital Contributions in an amount equal to the product obtained by multiplying (i) the quotient determined by dividing (A) the General Partner's Percentage Interest by (B) 100 less the General Partner's Percentage Interest times (ii) the amount contributed to the Partnership by the Limited Partners in exchange for such additional Limited Partner Interests. Except as set forth in Section 12.8, the General Partner shall not be obligated to make any additional Capital Contributions to the Partnership.

*Section 5.3 Contributions by Initial Limited Partners.*

(a)

On the Closing Date and pursuant to the Underwriting Agreement, each Underwriter shall contribute cash to the Partnership in exchange for the issuance by the Partnership of Common Units to each Underwriter, all as set forth in the Underwriting Agreement.

(b)

Upon the exercise, if any, of the Over-Allotment Option, each Underwriter shall contribute cash to the Partnership in exchange for the issuance by the Partnership of Common Units to each Underwriter, all as set forth in the Underwriting Agreement.

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(c)

No Limited Partner will be required to make any additional Capital Contribution to the Partnership pursuant to this Agreement.

*Section 5.4 Interest and Withdrawal.* No interest shall be paid by the Partnership on Capital Contributions. No Partner shall be entitled to the withdrawal or return of its Capital Contribution, except to the extent, if any, that distributions made pursuant to this Agreement or upon liquidation of the Partnership may be considered as such by law and then only to the extent provided for in this Agreement. Except to the extent expressly provided in this Agreement, no Partner shall have priority over any other Partner either as to the return of Capital Contributions or as to profits, losses or distributions. Any such return shall be a compromise to which all Partners agree within the meaning of Section 17-502(b) of the Delaware Act.

*Section 5.5 Capital Accounts.*

(a)

The Partnership shall maintain for each Partner (or a beneficial owner of Partnership Interests held by a nominee in any case in which the nominee has furnished the identity of such owner to the Partnership in accordance with Section 6031(c) of the Code or any other method acceptable to the General Partner) owning a Partnership Interest a separate Capital Account with respect to such Partnership Interest in accordance with the rules of Treasury Regulation Section 1.704-1(b)(2)(iv). Such Capital Account shall be increased by (i) the amount of all Capital Contributions made to the Partnership with respect to such Partnership Interest and (ii) all items of Partnership income and gain (including income and gain exempt from tax) computed in accordance with Section 5.5(b) and allocated with respect to such Partnership Interest pursuant to Section 6.1, and decreased by (x) the amount of cash or Net Agreed Value of all actual and deemed distributions of cash or property made with respect to such Partnership Interest and (y) all items of Partnership deduction and loss computed in accordance with Section 5.5(b) and allocated with respect to such Partnership Interest pursuant to Section 6.1.

(b)

For purposes of computing the amount of any item of income, gain, loss or deduction that is to be allocated pursuant to Article VI and is to be reflected in the Partners' Capital Accounts, the determination, recognition and classification of any such item shall be the same as its determination, recognition and classification for federal income tax purposes (including any method of depreciation, cost recovery or amortization used for that purpose), provided, that:

(i)

Solely for purposes of this Section 5.5, the Partnership shall be treated as owning directly its proportionate share (as determined by the General Partner based upon the provisions of the applicable Group Member Agreement) of all property owned by (x) any other Group Member that is classified as a partnership for federal income tax purposes and (y) any other partnership, limited liability company, unincorporated business or other entity classified as a partnership for federal income tax purposes of which a Group Member is, directly or indirectly, a partner, member or other equity holder.

(ii)

All fees and other expenses incurred by the Partnership to promote the sale of (or to sell) a Partnership Interest that can neither be deducted nor amortized under Section 709 of the Code, if any, shall, for purposes of Capital Account maintenance, be treated as an item of deduction at the time such fees and other expenses are incurred and shall be allocated among the Partners pursuant to Section 6.1.

(iii)

Except as otherwise provided in Treasury Regulation Section 1.704-1(b)(2)(iv)(m), the computation of all items of income, gain, loss and deduction shall be made without regard to any election under Section 754 of the Code that may be made by the Partnership and, as to those items described in Section 705(a)(1)(B) or 705(a)(2)(B) of the Code, without regard to the fact that such items are not includable in gross income or are neither currently deductible nor capitalized for federal income tax purposes. To the

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extent an adjustment to the adjusted tax basis of any Partnership asset pursuant to Section 734(b) or 743(b) of the Code is required, pursuant to Treasury Regulation Section 1.704-1(b)(2)(iv)(m), to be taken into account in determining Capital Accounts, the amount of such adjustment in the Capital Accounts shall be treated as an item of gain or loss.

(iv)

Any income, gain or loss attributable to the taxable disposition of any Partnership property shall be determined as if the adjusted basis of such property as of such date of disposition were equal in amount to the Partnership's Carrying Value with respect to such property as of such date.

(v)

In accordance with the requirements of Section 704(b) of the Code, any deductions for depreciation, cost recovery or amortization attributable to any Contributed Property shall be determined as if the adjusted basis of such property on the date it was acquired by the Partnership were equal to the Agreed Value of such property. Upon an adjustment pursuant to Section 5.5(d) to the Carrying Value of any Partnership property subject to depreciation, cost recovery or amortization, any further deductions for such depreciation, cost recovery or amortization attributable to such property shall be determined under the rules prescribed by Treasury Regulation Section 1.704-3(d)(2) as if the adjusted basis of such property were equal to the Carrying Value of such property immediately following such adjustment.

(vi)

The Gross Liability Value of each Liability of the Partnership described in Treasury Regulation Section 1.752-7(b)(3)(i) shall be adjusted at such times as provided in this Agreement for an adjustment to Carrying Values. The amount of any such adjustment shall be treated for purposes hereof as an item of loss (if the adjustment increases the Carrying Value of such Liability of the Partnership) or an item of gain (if the adjustment decreases the Carrying Value of such Liability of the Partnership).

(c)

(i) A transferee of a Partnership Interest shall succeed to a pro rata portion of the Capital Account of the transferor relating to the Partnership Interest so transferred.

(ii)

Subject to Section 6.7(c), immediately prior to the transfer of a Subordinated Unit or of a Subordinated Unit that has converted into a Common Unit pursuant to Section 5.7 by a holder thereof (other than a transfer to an Affiliate unless the General Partner elects to have this subparagraph 5.5(c)(ii) apply), the Capital Account maintained for such Person with respect to its Subordinated Units or converted Subordinated Units will (A) first, be allocated to the Subordinated Units or converted Subordinated Units to be transferred in an amount equal to the product of (x) the number of such Subordinated Units or converted Subordinated Units to be transferred and (y) the Per Unit Capital Amount for a Common Unit, and (B) second, any remaining balance in such Capital Account will be retained by the transferor, regardless of whether it has retained any Subordinated Units or converted Subordinated Units. Following any such allocation, the transferor's Capital Account, if any, maintained with respect to the retained Subordinated Units or Retained Converted Subordinated Units, if any, will have a balance equal to the amount allocated under clause (B) hereinabove, and the transferee's Capital Account established with respect to the transferred Subordinated Units or transferred converted Subordinated Units will have a balance equal to the amount allocated under clause (A) hereinabove.

(d)

(i) Consistent with Treasury Regulation Section 1.704-1(b)(2)(iv)(f), on an issuance of additional Partnership Interests for cash or Contributed Property, the issuance of Partnership Interests as consideration for the provision of services, or the conversion of the General Partner's Combined Interest to Common Units pursuant to Section 11.3(b), the Capital Account of each Partner and the Carrying Value of each Partnership property immediately

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prior to such issuance shall be adjusted upward or downward to reflect any Unrealized Gain or Unrealized Loss attributable to such Partnership property, and any such Unrealized Gain or Unrealized Loss shall be treated, for purposes of maintaining Capital Accounts, as if it had been recognized on an actual sale of each such property for an amount equal to its fair market value immediately prior to such issuance and had been allocated among the Partners at such time pursuant to Section 6.1(c) and Section 6.1(d) in the same manner as any item of gain or loss actually recognized following an event giving rise to the dissolution of the Partnership would have been allocated; provided, however, that in the event of an issuance of Partnership Interests for a de minimis amount of cash or Contributed Property, or in the event of an issuance of a de minimis amount of Partnership Interests as consideration for the provision of services, the General Partner may determine that such adjustments are unnecessary for the proper administration of the Partnership. In determining such Unrealized Gain or Unrealized Loss, the aggregate fair market value of all Partnership property (including cash or cash equivalents) immediately prior to the issuance of additional Partnership Interests shall be determined by the General Partner using such method of valuation as it may adopt. In making its determination of the fair market values of individual properties, the General Partner may determine that it is appropriate to first determine an aggregate value for the Partnership, derived from the current trading price of the Common Units, and taking fully into account the fair market value of the Partnership Interests of all Partners at such time, and then allocate such aggregate value among the individual properties of the Partnership (in such manner as it determines appropriate).

(ii)

In accordance with Treasury Regulation Section 1.704-1(b)(2)(iv)(f), immediately prior to any actual or deemed distribution to a Partner of any Partnership property (other than a distribution of cash that is not in redemption or retirement of a Partnership Interest), the Capital Accounts of all Partners and the Carrying Value of all Partnership property shall be adjusted upward or downward to reflect any Unrealized Gain or Unrealized Loss attributable to such Partnership property, and any such Unrealized Gain or Unrealized Loss shall be treated, for purposes of maintaining Capital Accounts, as if it had been recognized on an actual sale of each such property immediately prior to such distribution for an amount equal to its fair market value, and had been allocated among the Partners, at such time, pursuant to Section 6.1(c) and Section 6.1(d) in the same manner as any item of gain or loss actually recognized following an event giving rise to the dissolution of the Partnership would have been allocated. In determining such Unrealized Gain or Unrealized Loss the aggregate fair market value of all Partnership property (including cash or cash equivalents) immediately prior to a distribution shall (A) in the case of an actual distribution that is not made pursuant to Section 12.4 or in the case of a deemed distribution, be determined in the same manner as that provided in Section 5.5(d)(i) or (B) in the case of a liquidating distribution pursuant to Section 12.4, be determined by the Liquidator using such method of valuation as it may adopt.

*Section 5.6 Issuances of Additional Partnership Interests.*

(a)

The Partnership may issue additional Partnership Interests and options, rights, warrants and appreciation rights relating to the Partnership Interests (including as described in Section 7.4(c)) for any Partnership purpose at any time and from time to time to such Persons for such consideration and on such terms and conditions as the General Partner shall determine, all without the approval of any Limited Partners.

(b)

Each additional Partnership Interest authorized to be issued by the Partnership pursuant to Section 5.6(a) may be issued in one or more classes, or one or more series of any such classes, with such designations, preferences, rights, powers and duties (which may be senior to existing classes and series of Partnership Interests), as shall be fixed by the General Partner, including (i) the right to share in Partnership profits and losses or items thereof;

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(ii) the right to share in Partnership distributions; (iii) the rights upon dissolution and liquidation of the Partnership; (iv) whether, and the terms and conditions upon which, the Partnership may or shall be required to redeem the Partnership Interest (including sinking fund provisions); (v) whether such Partnership Interest is issued with the privilege of conversion or exchange and, if so, the terms and conditions of such conversion or exchange; (vi) the terms and conditions upon which each Partnership Interest will be issued, evidenced by certificates and assigned or transferred; (vii) the method for determining the Percentage Interest as to such Partnership Interest; and (viii) the right, if any, of each such Partnership Interest to vote on Partnership matters, including matters relating to the relative rights, preferences and privileges of such Partnership Interest.

(c)

The General Partner shall take all actions that it determines to be necessary or appropriate in connection with (i) each issuance of Partnership Interests and options, rights, warrants and appreciation rights relating to Partnership Interests pursuant to this Section 5.6, (ii) the conversion of the Combined Interest into Units pursuant to the terms of this Agreement, (iii) the issuance of Common Units pursuant to Section 5.11, (iv) reflecting admission of such additional Limited Partners in the books and records of the Partnership as the Record Holder of such Limited Partner Interest and (v) all additional issuances of Partnership Interests. The General Partner shall determine the relative rights, powers and duties of the holders of the Units or other Partnership Interests being so issued. The General Partner shall do all things necessary to comply with the Delaware Act and is authorized and directed to do all things that it determines to be necessary or appropriate in connection with any future issuance of Partnership Interests or in connection with the conversion of the Combined Interest into Units pursuant to the terms of this Agreement, including compliance with any statute, rule, regulation or guideline of any federal, state or other governmental agency or any National Securities Exchange on which the Units or other Partnership Interests are listed or admitted to trading.

(d)

No fractional Units shall be issued by the Partnership.

*Section 5.7 Conversion of Subordinated Units.*

(a)

All of the Subordinated Units shall convert into Common Units on a one-for-one basis on the first Business Day following the distribution of Available Cash to Partners pursuant to Section 6.3(a) in respect of the final Quarter of the Subordination Period.

(b)

Notwithstanding any other provision of this Agreement, all the then Outstanding Subordinated Units may convert into Common Units on a one-for-one basis as set forth in, and pursuant to the terms of, Section 11.4.

(c)

A Subordinated Unit that has converted into a Common Unit shall be subject to the provisions of Section 6.7.

*Section 5.8 Limited Preemptive Right.* Except as provided in this Section 5.8 and in Section 5.2 or as otherwise provided in a separate agreement by the Partnership, no Person shall have any preemptive, preferential or other similar right with respect to the issuance of any Partnership Interest, whether unissued, held in the treasury or hereafter created. The General Partner shall have the right, which it may from time to time assign in whole or in part to any of its Affiliates or the beneficial owners thereof or any of their respective Affiliates, to purchase Partnership Interests from the Partnership whenever, and on the same terms that, the Partnership issues Partnership Interests to Persons other than the General Partner and its Affiliates or such beneficial owners or any of their respective Affiliates, to the extent necessary to maintain the Percentage Interests of the General Partner and its Affiliates and such beneficial owners or any of their respective Affiliates equal to that which existed immediately prior to the issuance of such Partnership Interests.

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*Section 5.9 Splits and Combinations.*

- (a) Subject to Section 5.9(d), Section 6.6 and Section 6.9 (dealing with adjustments of distribution levels), the Partnership may make a Pro Rata distribution of Partnership Interests to all Record Holders or may effect a subdivision or combination of Partnership Interests so long as, after any such event, each Partner shall have the same Percentage Interest in the Partnership as before such event, and any amounts calculated on a per Unit basis (including any Common Unit Arrearage or Cumulative Common Unit Arrearage) or stated as a number of Units are proportionately adjusted retroactive to the beginning of the Partnership.
- (b) Whenever such a distribution, subdivision or combination of Partnership Interests is declared, the General Partner shall select a Record Date as of which the distribution, subdivision or combination shall be effective and shall send notice thereof at least 20 days prior to such Record Date to each Record Holder as of a date not less than 10 days prior to the date of such notice. The General Partner also may cause a firm of independent public accountants selected by it to calculate the number of Partnership Interests to be held by each Record Holder after giving effect to such distribution, subdivision or combination. The General Partner shall be entitled to rely on any certificate provided by such firm as conclusive evidence of the accuracy of such calculation.
- (c) Promptly following any such distribution, subdivision or combination, the Partnership may issue Certificates to the Record Holders of Partnership Interests as of the applicable Record Date representing the new number of Partnership Interests held by such Record Holders, or the General Partner may adopt such other procedures that it determines to be necessary or appropriate to reflect such changes. If any such combination results in a smaller total number of Partnership Interests Outstanding, the Partnership shall require, as a condition to the delivery to a Record Holder of such new Certificate, the surrender of any Certificate held by such Record Holder immediately prior to such Record Date.
- (d) The Partnership shall not issue fractional Units upon any distribution, subdivision or combination of Units. If a distribution, subdivision or combination of Units would result in the issuance of fractional Units but for the provisions of Section 5.6(d) and this Section 5.9(d), each fractional Unit shall be rounded to the nearest whole Unit (and a 0.5 Unit shall be rounded to the next higher Unit).

*Section 5.10 Fully Paid and Non-Assessable Nature of Limited Partner Interests.* All Limited Partner Interests issued pursuant to, and in accordance with the requirements of, this Article V shall be fully paid and non-assessable Limited Partner Interests in the Partnership, except as such non-assessability may be affected by Section 17-607 or 17-804 of the Delaware Act.

*Section 5.11 Issuance of Common Units in Connection with Reset of Incentive Distribution Rights.*

- (a) Subject to the provisions of this Section 5.11, the holder of the Incentive Distribution Rights (or, if there is more than one holder of the Incentive Distribution Rights, the holders of a majority in interest of the Incentive Distribution Rights) shall have the right, at any time when there are no Subordinated Units outstanding and the Partnership has made a distribution pursuant to Section 6.4(b)(v) for each of the four most recently completed Quarters and the amount of each such distribution did not exceed Adjusted Operating Surplus for such Quarter, to make an election (the "**IDR Reset Election**") to cause the Minimum Quarterly Distribution and the Target Distributions to be reset in accordance with the provisions of Section 5.11(e) and, in connection therewith, the holder or holders of the Incentive Distribution Rights will become entitled to receive their respective proportionate share of a number of Common Units (the "**IDR Reset Common Units**") derived by dividing (i) the average amount of cash distributions made by the Partnership for the two full Quarters immediately preceding the giving of the Reset Notice (as defined in Section 5.11(b)) in respect of the

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Incentive Distribution Rights by (ii) the average of the cash distributions made by the Partnership in respect of each Common Unit for the two full Quarters immediately preceding the giving of the Reset Notice (the "**Reset MQD**") (the number of Common Units determined by such quotient is referred to herein as the "**Aggregate Quantity of IDR Reset Common Units**"). The Percentage Interest of the General Partner after the issuance of the Aggregate Quantity of IDR Reset Common Units shall equal the Percentage Interest of the General Partner prior to the issuance of the Aggregate Quantity of IDR Reset Common Units and the General Partner shall not be obligated to make any additional Capital Contribution to the Partnership in order to maintain its Percentage Interest in connection therewith. The making of the IDR Reset Election in the manner specified in Section 5.11(b) shall cause the Minimum Quarterly Distribution and the Target Distributions to be reset in accordance with the provisions of Section 5.11(e) and, in connection therewith, the holder or holders of the Incentive Distribution Rights will become entitled to receive Common Units on the basis specified above, without any further approval required by the General Partner or the Unitholders, at the time specified in Section 5.11(c) unless the IDR Reset Election is rescinded pursuant to Section 5.11(d).

(b)

To exercise the right specified in Section 5.11(a), the holder of the Incentive Distribution Rights (or, if there is more than one holder of the Incentive Distribution Rights, the holders of a majority in interest of the Incentive Distribution Rights) shall deliver a written notice (the "**Reset Notice**") to the Partnership. Within 10 Business Days after the receipt by the Partnership of such Reset Notice, as the case may be, the Partnership shall deliver a written notice to the holder or holders of the Incentive Distribution Rights of the Partnership's determination of the aggregate number of Common Units which each holder of Incentive Distribution Rights will be entitled to receive.

(c)

The holder or holders of the Incentive Distribution Rights will be entitled to receive the Aggregate Quantity of IDR Reset Common Units on the fifteenth Business Day after receipt by the Partnership of the Reset Notice; provided, however, that the issuance of Common Units to the holder or holders of the Incentive Distribution Rights shall not occur prior to the approval of the listing or admission for trading of such Common Units by the principal National Securities Exchange upon which the Common Units are then listed or admitted for trading if any such approval is required pursuant to the rules and regulations of such National Securities Exchange.

(d)

If the principal National Securities Exchange upon which the Common Units are then traded has not approved the listing or admission for trading of the Common Units to be issued pursuant to this Section 5.11 on or before the 30th calendar day following the Partnership's receipt of the Reset Notice and such approval is required by the rules and regulations of such National Securities Exchange, then the holder of the Incentive Distribution Rights (or, if there is more than one holder of the Incentive Distribution Rights, the holders of a majority in interest of the Incentive Distribution Rights) shall have the right to either rescind the IDR Reset Election or elect to receive other Partnership Interests having such terms as the General Partner may approve, with the approval of the Conflicts Committee, that will provide (i) the same economic value, in the aggregate, as the Aggregate Quantity of IDR Reset Common Units would have had at the time of the Partnership's receipt of the Reset Notice, as determined by the General Partner, and (ii) for the subsequent conversion of such Partnership Interests into Common Units within not more than 12 months following the Partnership's receipt of the Reset Notice upon the satisfaction of one or more conditions that are reasonably acceptable to the holder of the Incentive Distribution Rights (or, if there is more than one holder of the Incentive Distribution Rights, the holders of a majority in interest of the Incentive Distribution Rights).



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- (e) The Minimum Quarterly Distribution, First Target Distribution, Second Target Distribution and Third Target Distribution shall be adjusted at the time of the issuance of Common Units or other Partnership Interests pursuant to this Section 5.11 such that (i) the Minimum Quarterly Distribution shall be reset to equal the Reset MQD, (ii) the First Target Distribution shall be reset to equal 115% of the Reset MQD, (iii) the Second Target Distribution shall be reset to equal to 125% of the Reset MQD and (iv) the Third Target Distribution shall be reset to equal 150% of the Reset MQD.
- (f) Upon the issuance of IDR Reset Common Units pursuant to Section 5.11(a), the Capital Account maintained with respect to the Incentive Distribution Rights shall (A) first, be allocated to IDR Reset Common Units in an amount equal to the product of (x) the Aggregate Quantity of IDR Reset Common Units and (y) the Per Unit Capital Amount for an Initial Common Unit, and (B) second, any remaining balance in such Capital Account will be retained by the holder of the Incentive Distribution Rights. In the event that there is not a sufficient Capital Account associated with the Incentive Distribution Rights to allocate the full Per Unit Capital Amount for an Initial Common Unit to the IDR Reset Common Units in accordance with clause (A) of this Section 5.11(f), the IDR Reset Common Units shall be subject to Sections 6.1(d)(x)(B) and 6.1(d)(x)(C).

## ARTICLE VI

### ALLOCATIONS AND DISTRIBUTIONS

*Section 6.1 Allocations for Capital Account Purposes.* For purposes of maintaining the Capital Accounts and in determining the rights of the Partners among themselves, the Partnership's items of income, gain, loss and deduction (computed in accordance with Section 5.5(b)) for each taxable period shall be allocated among the Partners as provided herein below.

- (a) *Net Income.* After giving effect to the special allocations set forth in Section 6.1(d), Net Income for each taxable period and all items of income, gain, loss and deduction taken into account in computing Net Income for such taxable period shall be allocated as follows:
  - (i) First, to the General Partner until the aggregate of the Net Income allocated to the General Partner pursuant to this Section 6.1(a)(i) and the Net Termination Gain allocated to the General Partner pursuant to Section 6.1(c)(i)(A) or Section 6.1(c)(iv)(A) for the current and all previous taxable periods is equal to the aggregate of the Net Loss allocated to the General Partner pursuant to Section 6.1(b)(ii) for all previous taxable periods and the Net Termination Loss allocated to the General Partner pursuant to Section 6.1(c)(ii)(D) or Section 6.1(c)(iii)(B) for the current and all previous taxable periods; and
  - (ii) The balance, if any, (x) to the General Partner in accordance with its Percentage Interest, and (y) to all Unitholders, Pro Rata, a percentage equal to 100% less the percentage applicable to subclause (x).
- (b) *Net Loss.* After giving effect to the special allocations set forth in Section 6.1(d), Net Loss for each taxable period and all items of income, gain, loss and deduction taken into account in computing Net Loss for such taxable period shall be allocated as follows:
  - (i) First, to the General Partner and the Unitholders, Pro Rata; provided, that Net Losses shall not be allocated pursuant to this Section 6.1(b)(i) to the extent that such allocation would cause any Unitholder to have a deficit balance in its Adjusted Capital Account at the end of such taxable period (or increase any existing deficit balance in its Adjusted Capital Account); and
  - (ii) The balance, if any, 100% to the General Partner;



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(c)

*Net Termination Gains and Losses.* After giving effect to the special allocations set forth in Section 6.1(d), Net Termination Gain or Net Termination Loss (including a pro rata part of each item of income, gain, loss and deduction taken into account in computing Net Termination Gain or Net Termination Loss) for such taxable period shall be allocated in the manner set forth in this Section 6.1(c). All allocations under this Section 6.1(c) shall be made after Capital Account balances have been adjusted by all other allocations provided under this Section 6.1 and after all distributions of Available Cash provided under Section 6.4 and Section 6.5 have been made; provided, however, that solely for purposes of this Section 6.1(c), Capital Accounts shall not be adjusted for distributions made pursuant to Section 12.4.

(i)

Except as provided in Section 6.1(c)(iv) or Section 6.1(c)(v), Net Termination Gain (including a pro rata part of each item of income, gain, loss, and deduction taken into account in computing Net Termination Gain) shall be allocated:

(A)

First, to the General Partner until the aggregate of the Net Termination Gain allocated to the General Partner pursuant to this Section 6.1(c)(i)(A) or Section 6.1(c)(iv)(A) and the Net Income allocated to the General Partner pursuant to Section 6.1(a)(i) for the current and all previous taxable periods is equal to the aggregate of the Net Loss allocated to the General Partner pursuant to Section 6.1(b)(ii) for all previous taxable periods and the Net Termination Loss allocated to the General Partner pursuant to Section 6.1(c)(ii)(D) or Section 6.1(c)(iii)(B) for all previous taxable periods;

(B)

Second, (x) to the General Partner in accordance with its Percentage Interest and (y) to all Unitholders holding Common Units, Pro Rata, a percentage equal to 100% less the General Partner's Percentage Interest, until the Capital Account in respect of each Common Unit then Outstanding is equal to the sum of (1) its Unrecovered Initial Unit Price, (2) the Minimum Quarterly Distribution for the Quarter during which the Liquidation Date occurs, reduced by any distribution pursuant to Section 6.4(a)(i) or Section 6.4(b)(i) with respect to such Common Unit for such Quarter (the amount determined pursuant to this clause (2) is hereinafter referred to as the "**Unpaid MQD**") and (3) any then existing Cumulative Common Unit Arrearage;

(C)

Third, if such Net Termination Gain is recognized (or is deemed to be recognized) prior to the conversion of the last Outstanding Subordinated Unit into a Common Unit, (x) to the General Partner in accordance with its Percentage Interest and (y) to all Unitholders holding Subordinated Units, Pro Rata, a percentage equal to 100% less the General Partner's Percentage Interest, until the Capital Account in respect of each Subordinated Unit then Outstanding equals the sum of (1) its Unrecovered Initial Unit Price, determined for the taxable period (or portion thereof) to which this allocation of gain relates, and (2) the Minimum Quarterly Distribution for the Quarter during which the Liquidation Date occurs, reduced by any distribution pursuant to Section 6.4(a)(iii) with respect to such Subordinated Unit for such Quarter;

(D)

Fourth, 100% to the General Partner and all Unitholders, Pro Rata, until the Capital Account in respect of each Common Unit then Outstanding is equal to the sum of (1) its Unrecovered Initial Unit Price, (2) the Unpaid MQD, (3) any then existing Cumulative Common Unit Arrearage, and (4) the excess of (aa) the First Target Distribution less the Minimum Quarterly Distribution for each Quarter of the Partnership's existence over (bb) the cumulative per Unit amount of any distributions of Available Cash that is deemed to be Operating Surplus made pursuant to

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Section 6.4(a)(iv) and Section 6.4(b)(ii) (the sum of (1), (2), (3) and (4) is hereinafter referred to as the "**First Liquidation Target Amount**");

(E)

Fifth, (x) to the General Partner in accordance with its Percentage Interest, (y) 13% to the holders of the Incentive Distribution Rights, Pro Rata, and (z) to all Unitholders, Pro Rata, a percentage equal to 100% less the sum of the percentages applicable to subclauses (x) and (y) of this clause (E), until the Capital Account in respect of each Common Unit then Outstanding is equal to the sum of (1) the First Liquidation Target Amount, and (2) the excess of (aa) the Second Target Distribution less the First Target Distribution for each Quarter of the Partnership's existence over (bb) the cumulative per Unit amount of any distributions of Available Cash that is deemed to be Operating Surplus made pursuant to Section 6.4(a)(v) and Section 6.4(b)(iii) (the sum of (1) and (2) is hereinafter referred to as the "**Second Liquidation Target Amount**");

(F)

Sixth, (x) to the General Partner in accordance with its Percentage Interest, (y) 23% to the holders of the Incentive Distribution Rights, Pro Rata, and (z) to all Unitholders, Pro Rata, a percentage equal to 100% less the sum of the percentages applicable to subclauses (x) and (y) of this clause (F), until the Capital Account in respect of each Common Unit then Outstanding is equal to the sum of (1) the Second Liquidation Target Amount, and (2) the excess of (aa) the Third Target Distribution less the Second Target Distribution for each Quarter of the Partnership's existence over (bb) the cumulative per Unit amount of any distributions of Available Cash that is deemed to be Operating Surplus made pursuant to Section 6.4(a)(vi) and Section 6.4(b)(iv); and

(G)

Finally, (x) to the General Partner in accordance with its Percentage Interest, (y) 48% to the holders of the Incentive Distribution Rights, Pro Rata, and (z) to all Unitholders, Pro Rata, a percentage equal to 100% less the sum of the percentages applicable to subclauses (x) and (y) of this clause (G).

(ii)

Except as otherwise provided by Section 6.1(c)(iii) or Section 6.1(c)(v), Net Termination Loss (including a pro rata part of each item of income, gain, loss, and deduction taken into account in computing Net Termination Loss) shall be allocated:

(A)

First, if Subordinated Units remain Outstanding, (x) to the General Partner in accordance with its Percentage Interest and (y) to all Unitholders holding Subordinated Units, Pro Rata, a percentage equal to 100% less the General Partner's Percentage Interest, until the Capital Account in respect of each Subordinated Unit then Outstanding has been reduced to zero;

(B)

Second, (x) to the General Partner in accordance with its Percentage Interest and (y) to all Unitholders holding Common Units, Pro Rata, a percentage equal to 100% less the General Partner's Percentage Interest, until the Capital Account in respect of each Common Unit then Outstanding has been reduced to zero;

(C)

Third, to the General Partner and the Unitholders, Pro Rata; provided that Net Termination Loss shall not be allocated pursuant to this Section 6.1(c)(ii)(C) to the extent such allocation would cause any Unitholder to have a deficit balance in its Adjusted Capital Account (or increase any existing deficit in its Adjusted Capital Account); and

(D)

Fourth, the balance, if any, 100% to the General Partner.

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- (iii) Except as otherwise provided by Section 6.1(c)(v), any Net Termination Loss deemed recognized pursuant to Section 5.5(d) prior to the Liquidation Date shall be allocated:
  - (A) First, to the General Partner and the Unitholders, Pro Rata; provided that Net Termination Loss shall not be allocated pursuant to this Section 6.1(c)(iii)(A) to the extent such allocation would cause any Unitholder to have a deficit balance in its Adjusted Capital Account at the end of such taxable period (or increase any existing deficit in its Adjusted Capital Account); and
  - (B) The balance, if any, to the General Partner.
- (iv) If a Net Termination Loss has been allocated pursuant to Section 6.1(c)(iii), subsequent Net Termination Gain deemed recognized pursuant to Section 5.5(d) prior to the Liquidation Date shall be allocated:
  - (A) First, to the General Partner until the aggregate Net Termination Gain allocated to the General Partner pursuant to this Section 6.1(c)(iv)(A) is equal to the aggregate Net Termination Loss previously allocated pursuant to Section 6.1(c)(iii)(B);
  - (B) Second, to the General Partner and the Unitholders, Pro Rata, until the aggregate Net Termination Gain allocated pursuant to this Section 6.1(c)(iv)(B) is equal to the aggregate Net Termination Loss previously allocated pursuant to Section 6.1(c)(iii)(A); and
  - (C) The balance, if any, pursuant to the provisions of Section 6.1(c)(i).
- (v) Allocations of Net Termination Gain and Net Termination Loss Prior to Closing Date.
  - (A) Net Termination Gain recognized (or deemed recognized pursuant to Section 5.5(d)) on or prior to the Closing Date shall be treated as Net Income and allocated pursuant to Section 6.1(a).
  - (B) Net Termination Loss recognized (or deemed recognized pursuant to Section 5.5(d)) on or prior to the Closing Date shall be treated as Net Loss and allocated pursuant to Section 6.1(b).
- (d) *Special Allocations.* Notwithstanding any other provision of this Section 6.1, the following special allocations shall be made for such taxable period:
  - (i) **Partnership Minimum Gain Chargeback.** Notwithstanding any other provision of this Section 6.1, if there is a net decrease in Partnership Minimum Gain during any Partnership taxable period, each Partner shall be allocated items of Partnership income and gain for such period (and, if necessary, subsequent periods) in the manner and amounts provided in Treasury Regulation Sections 1.704-2(f)(6), 1.704-2(g)(2) and 1.704-2(j)(2)(i), or any successor provision. For purposes of this Section 6.1(d), each Partner's Adjusted Capital Account balance shall be determined, and the allocation of income or gain required hereunder shall be effected, prior to the application of any other allocations pursuant to this Section 6.1(d) with respect to such taxable period (other than an allocation pursuant to Section 6.1(d)(vi) and Section 6.1(d)(vii)). This Section 6.1(d)(i) is intended to comply with the Partnership Minimum Gain chargeback requirement in Treasury Regulation Section 1.704-2(f) and shall be interpreted consistently therewith.
  - (ii) **Chargeback of Partner Nonrecourse Debt Minimum Gain.** Notwithstanding the other provisions of this Section 6.1 (other than Section 6.1(d)(i)), except as provided in Treasury Regulation Section 1.704-2(i)(4), if there

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is a net decrease in Partner Nonrecourse Debt Minimum Gain during any Partnership taxable period, any Partner with a share of Partner Nonrecourse Debt Minimum Gain at the beginning of such taxable period shall be allocated items of Partnership income and gain for such period (and, if necessary,

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subsequent periods) in the manner and amounts provided in Treasury Regulation Sections 1.704-2(i)(4) and 1.704-2(j)(2)(ii), or any successor provisions. For purposes of this Section 6.1(d), each Partner's Adjusted Capital Account balance shall be determined, and the allocation of income or gain required hereunder shall be effected, prior to the application of any other allocations pursuant to this Section 6.1(d), other than Section 6.1(d)(i) and other than an allocation pursuant to Section 6.1(d)(vi) and Section 6.1(d)(vii), with respect to such taxable period. This Section 6.1(d)(ii) is intended to comply with the chargeback of items of income and gain requirement in Treasury Regulation Section 1.704-2(i)(4) and shall be interpreted consistently therewith.

(iii)

*Priority Allocations.*

(A)

If the amount of cash or the Net Agreed Value of any property distributed (except cash or property distributed pursuant to Section 12.4) with respect to a Unit exceeds the amount of cash or the Net Agreed Value of property distributed with respect to another Unit (the amount of the excess, an "**Excess Distribution**" and the Unit with respect to which the greater distribution is paid, an "**Excess Distribution Unit**"), then (1) there shall be allocated gross income and gain to each Unitholder receiving an Excess Distribution with respect to the Excess Distribution Unit until the aggregate amount of such items allocated with respect to such Excess Distribution Unit pursuant to this Section 6.1(d)(iii)(A) for the current taxable period and all previous taxable periods is equal to the amount of the Excess Distribution; and (2) the General Partner shall be allocated gross income and gain with respect to each such Excess Distribution in an amount equal to the product obtained by multiplying (aa) the quotient determined by dividing (x) the General Partner's Percentage Interest at the time when the Excess Distribution occurs by (y) a percentage equal to 100% less the General Partner's Percentage Interest at the time when the Excess Distribution occurs, times (bb) the total amount allocated in clause (1) above with respect to such Excess Distribution.

(B)

After the application of Section 6.1(d)(iii)(A), all or any portion of the remaining items of Partnership gross income or gain for the taxable period, if any, shall be allocated (1) to the holders of Incentive Distribution Rights, Pro Rata, until the aggregate amount of such items allocated to the holders of Incentive Distribution Rights pursuant to this Section 6.1(d)(iii)(B) for the current taxable period and all previous taxable periods is equal to the cumulative amount of all Incentive Distributions made to the holders of Incentive Distribution Rights from the Closing Date to a date 45 days after the end of the current taxable period; and (2) to the General Partner an amount equal to the product of (aa) an amount equal to the quotient determined by dividing (x) the General Partner's Percentage Interest by (y) the sum of 100 less the General Partner's Percentage Interest times (bb) the sum of the amounts allocated in clause (1) above.

(iv)

**Qualified Income Offset.** In the event any Partner unexpectedly receives any adjustments, allocations or distributions described in Treasury Regulation Sections 1.704-1(b)(2)(ii)(d)(4), 1.704-1(b)(2)(ii)(d)(5), or 1.704-1(b)(2)(ii)(d)(6), items of Partnership gross income and gain shall be specially allocated to such Partner in an amount and manner sufficient to eliminate, to the extent required by the Treasury Regulations promulgated under Section 704(b) of the Code, the deficit balance, if any, in its Adjusted Capital Account created by such adjustments, allocations or distributions as quickly as possible; provided, that an allocation pursuant to this Section 6.1(d)(iv) shall be made only if and to the extent that such Partner would have a deficit balance in its Adjusted Capital Account as adjusted after all other allocations provided for in this Section 6.1 have been tentatively made as if this Section 6.1(d)(iv) were not in this Agreement.

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- (v) Gross Income Allocation. In the event any Partner has a deficit balance in its Capital Account at the end of any taxable period in excess of the sum of (A) the amount such Partner is required to restore pursuant to the provisions of this Agreement and (B) the amount such Partner is deemed obligated to restore pursuant to Treasury Regulation Sections 1.704-2(g) and 1.704-2(i)(5), such Partner shall be specially allocated items of Partnership gross income and gain in the amount of such excess as quickly as possible; provided, that an allocation pursuant to this Section 6.1(d)(v) shall be made only if and to the extent that such Partner would have a deficit balance in its Capital Account as adjusted after all other allocations provided for in this Section 6.1 have been tentatively made as if Section 6.1(d)(iv) and this Section 6.1(d)(v) were not in this Agreement.
- (vi) Nonrecourse Deductions. Nonrecourse Deductions for any taxable period shall be allocated to the Partners Pro Rata. If the General Partner determines that the Partnership's Nonrecourse Deductions should be allocated in a different ratio to satisfy the safe harbor requirements of the Treasury Regulations promulgated under Section 704(b) of the Code, the General Partner is authorized, upon notice to the other Partners, to revise the prescribed ratio to the numerically closest ratio that does satisfy such requirements.
- (vii) Partner Nonrecourse Deductions. Partner Nonrecourse Deductions for any taxable period shall be allocated 100% to the Partner that bears the Economic Risk of Loss with respect to the Partner Nonrecourse Debt to which such Partner Nonrecourse Deductions are attributable in accordance with Treasury Regulation Section 1.704-2(i). If more than one Partner bears the Economic Risk of Loss with respect to a Partner Nonrecourse Debt, such Partner Nonrecourse Deductions attributable thereto shall be allocated between or among such Partners in accordance with the ratios in which they share such Economic Risk of Loss.
- (viii) Nonrecourse Liabilities. For purposes of Treasury Regulation Section 1.752-3(a)(3), the Partners agree that Nonrecourse Liabilities of the Partnership in excess of the sum of (A) the amount of Partnership Minimum Gain and (B) the total amount of Nonrecourse Built-in Gain shall be allocated among the Partners Pro Rata.
- (ix) Code Section 754 Adjustments. To the extent an adjustment to the adjusted tax basis of any Partnership asset pursuant to Section 734(b) or 743(b) of the Code is required, pursuant to Treasury Regulation Section 1.704-1(b)(2)(iv)(m), to be taken into account in determining Capital Accounts, the amount of such adjustment to the Capital Accounts shall be treated as an item of gain (if the adjustment increases the basis of the asset) or loss (if the adjustment decreases such basis), and such item of gain or loss shall be specially allocated to the Partners in a manner consistent with the manner in which their Capital Accounts are required to be adjusted pursuant to such Section of the Treasury Regulations.
- (x) Economic Uniformity; Changes in Law.
  - (A) At the election of the General Partner with respect to any taxable period ending upon, or after, the termination of the Subordination Period, all or a portion of the remaining items of Partnership gross income or gain for such taxable period, after taking into account allocations pursuant to Section 6.1(d)(iii), shall be allocated 100% to each Partner holding Subordinated Units that are Outstanding as of the termination of the Subordination Period ("**Final Subordinated Units**") in the proportion of the number of Final Subordinated Units held by such Partner to the total number of Final Subordinated Units then Outstanding, until each such Partner has been allocated an amount of gross income or gain that increases the Capital Account maintained with respect to such Final Subordinated Units to an amount that after taking into account the other allocations of income, gain, loss



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and deduction to be made with respect to such taxable period will equal the product of (A) the number of Final Subordinated Units held by such Partner and (B) the Per Unit Capital Amount for a Common Unit. The purpose of this allocation is to establish uniformity between the Capital Accounts underlying Final Subordinated Units and the Capital Accounts underlying Common Units held by Persons other than the General Partner and its Affiliates immediately prior to the conversion of such Final Subordinated Units into Common Units. This allocation method for establishing such economic uniformity will be available to the General Partner only if the method for allocating the Capital Account maintained with respect to the Subordinated Units between the transferred and retained Subordinated Units pursuant to Section 5.5(c)(ii) does not otherwise provide such economic uniformity to the Final Subordinated Units.

(B)

With respect to an event triggering an adjustment to the Carrying Value of Partnership property pursuant to Section 5.5(d) during any taxable period of the Partnership ending upon, or after, the issuance of IDR Reset Common Units pursuant to Section 5.11, after the application of Section 6.1(d)(x)(A), any Unrealized Gains and Unrealized Losses shall be allocated among the Partners in a manner that to the nearest extent possible results in the Capital Accounts maintained with respect to such IDR Reset Common Units issued pursuant to Section 5.11 equaling the product of (A) the Aggregate Quantity of IDR Reset Common Units and (B) the Per Unit Capital Amount for an Initial Common Unit.

(C)

With respect to any taxable period during which an IDR Reset Unit is transferred to any Person who is not an Affiliate of the transferor, all or a portion of the remaining items of Partnership gross income or gain for such taxable period shall be allocated 100% to the transferor Partner of such transferred IDR Reset Common Unit until such transferor Partner has been allocated an amount of gross income or gain that increases the Capital Account maintained with respect to such transferred IDR Reset Unit to an amount equal to the Per Unit Capital Amount for an Initial Common Unit.

(D)

For the proper administration of the Partnership and for the preservation of uniformity of the Limited Partner Interests (or any class or classes thereof), the General Partner shall (i) adopt such conventions as it deems appropriate in determining the amount of depreciation, amortization and cost recovery deductions; (ii) make special allocations of income, gain, loss, deduction, Unrealized Gain or Unrealized Loss; and (iii) amend the provisions of this Agreement as appropriate (x) to reflect the proposal or promulgation of Treasury Regulations under Section 704(b) or Section 704(c) of the Code or (y) otherwise to preserve or achieve uniformity of the Limited Partner Interests (or any class or classes thereof). The General Partner may adopt such conventions, make such allocations and make such amendments to this Agreement as provided in this Section 6.1(d)(x)(D) only if such conventions, allocations or amendments would not have a material adverse effect on the Partners, the holders of any class or classes of Limited Partner Interests issued and Outstanding or the Partnership, and if such allocations are consistent with the principles of Section 704 of the Code.

(xi)

Curative Allocation.

(A)

Notwithstanding any other provision of this Section 6.1, other than the Required Allocations, the Required Allocations shall be taken into account in making the Agreed Allocations so that, to the extent possible, the net amount of items of gross income, gain, loss and deduction allocated to each Partner pursuant to the

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Required Allocations and the Agreed Allocations, together, shall be equal to the net amount of such items that would have been allocated to each such Partner under the Agreed Allocations had the Required Allocations and the related Curative Allocation not otherwise been provided in this Section 6.1. In exercising its discretion under this Section 6.1(d)(xi)(A), the General Partner may take into account future Required Allocations that, although not yet made, are likely to offset other Required Allocations previously made. Allocations pursuant to this Section 6.1(d)(xi)(A) shall only be made with respect to Required Allocations to the extent the General Partner determines that such allocations will otherwise be inconsistent with the economic agreement among the Partners.

(B)

The General Partner shall, with respect to each taxable period, (1) apply the provisions of Section 6.1(d)(xi)(A) in whatever order is most likely to minimize the economic distortions that might otherwise result from the Required Allocations, and (2) divide all allocations pursuant to Section 6.1(d)(xi)(A) among the Partners in a manner that is likely to minimize such economic distortions.

(xii)

Corrective and Other Allocations. In the event of any allocation of Additional Book Basis Derivative Items or any Book-Down Event or any recognition of a Net Termination Loss, the following rules shall apply:

(A)

Except as provided in Section 6.1(d)(xii)(B), in the case of any allocation of Additional Book Basis Derivative Items (other than an allocation of Unrealized Gain or Unrealized Loss under Section 5.5(d) hereof), the General Partner shall allocate such Additional Book Basis Derivative Items to (1) the holders of Incentive Distribution Rights and the General Partner to the same extent that the Unrealized Gain or Unrealized Loss giving rise to such Additional Book Basis Derivative Items was allocated to them pursuant to Section 5.5(d) and (2) all Unitholders, Pro Rata, to the extent that the Unrealized Gain or Unrealized Loss giving rise to such Additional Book Basis Derivative Items was allocated to any Unitholders pursuant to Section 5.5(d).

(B)

In the case of any allocation of Additional Book Basis Derivative Items (other than an allocation of Unrealized Gain or Unrealized Loss under Section 5.5(d) hereof or an allocation of Net Termination Gain or Net Termination Loss pursuant to Section 6.1(c) hereof) as a result of a sale or other taxable disposition of any Partnership asset that is an Adjusted Property ("**Disposed of Adjusted Property**"), the General Partner shall allocate (1) additional items of gross income and gain (aa) away from the holders of Incentive Distribution Rights and (bb) to the Unitholders, or (2) additional items of deduction and loss (aa) away from the Unitholders and (bb) to the holders of Incentive Distribution Rights, to the extent that the Additional Book Basis Derivative Items allocated to the Unitholders exceed their Share of Additional Book Basis Derivative Items with respect to such Disposed of Adjusted Property. Any allocation made pursuant to this Section 6.1(d)(xii)(B) shall be made after all of the other Agreed Allocations have been made as if this Section 6.1(d)(xii) were not in this Agreement and, to the extent necessary, shall require the reallocation of items that have been allocated pursuant to such other Agreed Allocations.

(C)

In the case of any negative adjustments to the Capital Accounts of the Partners resulting from a Book-Down Event or from the recognition of a Net Termination Loss, such negative adjustment (1) shall first be allocated, to the extent of the Aggregate Remaining Net Positive Adjustments, in such a manner, as determined by the General Partner, that to the extent possible the aggregate Capital Accounts

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of the Partners will equal the amount that would have been the Capital Account balances of the Partners if no prior Book-Up Events had occurred, and (2) any negative adjustment in excess of the Aggregate Remaining Net Positive Adjustments shall be allocated pursuant to Section 6.1(c) hereof.

(D)

For purposes of this Section 6.1(d)(xii), the Unitholders shall be treated as being allocated Additional Book Basis Derivative Items to the extent that such Additional Book Basis Derivative Items have reduced the amount of income that would otherwise have been allocated to the Unitholders under this Agreement. In making the allocations required under this Section 6.1(d)(xii), the General Partner may apply whatever conventions or other methodology it determines will satisfy the purpose of this Section 6.1(d)(xii). Without limiting the foregoing, if an Adjusted Property is contributed by the Partnership to another entity classified as a partnership for federal income tax purposes (the "**lower tier partnership**"), the General Partner may make allocations similar to those described in Section 6.1(d)(xii)(A) - Section 6.1(d)(xii)(C) to the extent the General Partner determines such allocations are necessary to account for the Partnership's allocable share of income, gain, loss and deduction of the lower tier partnership that relate to the contributed Adjusted Property in a manner that is consistent with the purpose of this Section 6.1(d)(xii).

(E)

Notwithstanding any other provision of this Section 6.1(d)(xii), (x) no allocations shall be made pursuant to this Section 6.1(d)(xii) with respect to any taxable period (or portion thereof) ending on or prior to the Closing Date and (y) for taxable periods (or portions thereof) ending after the Closing Date, the determinations of Additional Book Basis (and items derived therefrom) and Net Positive Adjustments (and items derived therefrom) shall be made without regard to any Book-Up Event or Book-Down Event that occurred on or prior to the Closing Date.

(xiii)

Special Curative Allocation in Event of Liquidation Prior to End of Subordination Period. Notwithstanding any other provision of this Section 6.1 (other than the Required Allocations), if the Liquidation Date occurs prior to the conversion of the last Outstanding Subordinated Unit, then items of income, gain, loss and deduction for the taxable period that includes the Liquidation Date (and, if necessary, items arising in previous taxable periods to the extent the General Partner determines such items may be so allocated), shall be specially allocated among the Partners in the manner determined appropriate by the General Partner so as to cause, to the maximum extent possible, the Capital Account in respect of each Common Unit to equal the amount such Capital Account would have been if all prior allocations of Net Termination Gain and Net Termination Loss had been made pursuant to Section 6.1(c)(i) or Section 6.1(c)(ii), as applicable.

*Section 6.2 Allocations for Tax Purposes.*

(a)

Except as otherwise provided herein, for federal income tax purposes, each item of income, gain, loss and deduction shall be allocated among the Partners in the same manner as its correlative item of "book" income, gain, loss or deduction is allocated pursuant to Section 6.1.

(b)

In an attempt to eliminate Book-Tax Disparities attributable to a Contributed Property or Adjusted Property, items of income, gain, loss, depreciation, amortization and cost recovery deductions shall be allocated for federal income tax purposes among the Partners in the manner provided under Section 704(c) of the Code, and the Treasury Regulations promulgated under Section 704(b) and 704(c) of the Code, as determined appropriate by the General Partner (taking into account the General Partner's discretion under Section 6.1(d)(x)(D)); provided, that the General Partner shall apply the principles of Treasury Regulation Section 1.704-3(d) in all events.

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- (c) The General Partner may determine to depreciate or amortize the portion of an adjustment under Section 743(b) of the Code attributable to unrealized appreciation in any Adjusted Property (to the extent of the unamortized Book-Tax Disparity) using a predetermined rate derived from the depreciation or amortization method and useful life applied to the unamortized Book-Tax Disparity of such property, despite any inconsistency of such approach with Treasury Regulation Section 1.167(c)-1(a)(6) or any successor regulations thereto. If the General Partner determines that such reporting position cannot reasonably be taken, the General Partner may adopt depreciation and amortization conventions under which all purchasers acquiring Limited Partner Interests in the same month would receive depreciation and amortization deductions, based upon the same applicable rate as if they had purchased a direct interest in the Partnership's property. If the General Partner chooses not to utilize such aggregate method, the General Partner may use any other depreciation and amortization conventions to preserve the uniformity of the intrinsic tax characteristics of any Limited Partner Interests, so long as such conventions would not have a material adverse effect on the Limited Partners or the Record Holders of any class or classes of Limited Partner Interests.
- (d) In accordance with Treasury Regulation Sections 1.1245-1(e) and 1.1250-1(f), any gain allocated to the Partners upon the sale or other taxable disposition of any Partnership asset shall, to the extent possible, after taking into account other required allocations of gain pursuant to this Section 6.2, be characterized as Recapture Income in the same proportions and to the same extent as such Partners (or their predecessors in interest) have been allocated any deductions directly or indirectly giving rise to the treatment of such gains as Recapture Income.
- (e) All items of income, gain, loss, deduction and credit recognized by the Partnership for federal income tax purposes and allocated to the Partners in accordance with the provisions hereof shall be determined without regard to any election under Section 754 of the Code that may be made by the Partnership; provided, however, that such allocations, once made, shall be adjusted (in the manner determined by the General Partner) to take into account those adjustments permitted or required by Sections 734 and 743 of the Code.
- (f) Each item of Partnership income, gain, loss and deduction shall, for federal income tax purposes, be determined for each taxable period and prorated on a monthly basis and shall be allocated to the Partners as of the opening of the National Securities Exchange on which the Partnership Interests are listed or admitted to trading on the first Business Day of each month; provided, however, that gain or loss on a sale or other disposition of any assets of the Partnership or any other extraordinary item of income, gain, loss or deduction as determined by the General Partner, shall be allocated to the Partners as of the opening of the National Securities Exchange on which the Partnership Interests are listed or admitted to trading on the first Business Day of the month in which such item is recognized for federal income tax purposes. The General Partner may revise, alter or otherwise modify such methods of allocation to the extent permitted or required by Section 706 of the Code and the regulations or rulings promulgated thereunder.
- (g) Allocations that would otherwise be made to a Limited Partner under the provisions of this Article VI shall instead be made to the beneficial owner of Limited Partner Interests held by a nominee in any case in which the nominee has furnished the identity of such owner to the Partnership in accordance with Section 6031(c) of the Code or any other method determined by the General Partner.

*Section 6.3 Requirement and Characterization of Distributions; Distributions to Record Holders.*

- (a) Within 45 days following the end of each Quarter commencing with the Quarter in which the Closing Date occurs an amount equal to 100% of Available Cash with respect to such Quarter

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shall be distributed in accordance with this Article VI by the Partnership to Partners as of the Record Date selected by the General Partner. All amounts of Available Cash distributed by the Partnership on any date after the closing date from any source shall be deemed to be Operating Surplus until the sum of all amounts of Available Cash theretofore distributed by the Partnership to the Partners pursuant to Section 6.4 equals the Operating Surplus from the Closing Date through the close of the immediately preceding Quarter. Any remaining amounts of Available Cash distributed by the Partnership on such date shall, except as otherwise provided in Section 6.5, be deemed to be "**Capital Surplus**."

(b)

With respect to the distribution for the Quarter in which the Closing Date occurs, the amount of Available Cash distributed to the Partners in accordance with Section 6.3(a) shall equal 100% of the Available Cash with respect to such Quarter multiplied by a fraction of which the numerator is the number of days in the period commencing on the Closing Date and ending on the last day of the Quarter in which the Closing Date occurs and of which the denominator is the number of days in such Quarter.

(c)

Notwithstanding Section 6.3(a), in the event of the dissolution and liquidation of the Partnership, all cash received during or after the Quarter in which the Liquidation Date occurs, other than from Working Capital Borrowings, shall be applied and distributed solely in accordance with, and subject to the terms and conditions of, Section 12.4.

(d)

Each distribution in respect of a Partnership Interest shall be paid by the Partnership, directly or through any Transfer Agent or through any other Person or agent, only to the Record Holder of such Partnership Interest as of the Record Date set for such distribution. Such payment shall constitute full payment and satisfaction of the Partnership's liability in respect of such payment, regardless of any claim of any Person who may have an interest in such payment by reason of an assignment or otherwise.

*Section 6.4 Distributions of Available Cash from Operating Surplus.*

(a)

*During Subordination Period.* Available Cash with respect to any Quarter within the Subordination Period that is deemed to be Operating Surplus pursuant to the provisions of Section 6.3 or Section 6.5 shall be distributed as follows, except as otherwise contemplated by Section 5.6(b) in respect of other Partnership Interests issued pursuant thereto:

(i)

First, (x) to the General Partner in accordance with its Percentage Interest and (y) to the Unitholders holding Common Units, Pro Rata, a percentage equal to 100% less the General Partner's Percentage Interest, until there has been distributed in respect of each Common Unit then Outstanding an amount equal to the Minimum Quarterly Distribution for such Quarter;

(ii)

Second, (x) to the General Partner in accordance with its Percentage Interest and (y) to the Unitholders holding Common Units, Pro Rata, a percentage equal to 100% less the General Partner's Percentage Interest, until there has been distributed in respect of each Common Unit then Outstanding an amount equal to the Cumulative Common Unit Arrearage existing with respect to such Quarter;

(iii)

Third, (x) to the General Partner in accordance with its Percentage Interest and (y) to the Unitholders holding Subordinated Units, Pro Rata, a percentage equal to 100% less the General Partner's Percentage Interest, until there has been distributed in respect of each Subordinated Unit then Outstanding an amount equal to the Minimum Quarterly Distribution for such Quarter;

(iv)

Fourth, to the General Partner and all Unitholders, Pro Rata, until there has been distributed in respect of each Unit then Outstanding an amount equal to the excess of the First Target Distribution over the Minimum Quarterly Distribution for such Quarter;

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- (v) Fifth, (A) to the General Partner in accordance with its Percentage Interest; (B) 13% to the holders of the Incentive Distribution Rights, Pro Rata; and (C) to all Unitholders, Pro Rata, a percentage equal to 100% less the sum of the percentages applicable to subclauses (A) and (B) of this clause (v) until there has been distributed in respect of each Unit then Outstanding an amount equal to the excess of the Second Target Distribution over the First Target Distribution for such Quarter;
- (vi) Sixth, (A) to the General Partner in accordance with its Percentage Interest, (B) 23% to the holders of the Incentive Distribution Rights, Pro Rata; and (C) to all Unitholders, Pro Rata, a percentage equal to 100% less the sum of the percentages applicable to subclauses (A) and (B) of this clause (vi), until there has been distributed in respect of each Unit then Outstanding an amount equal to the excess of the Third Target Distribution over the Second Target Distribution for such Quarter; and
- (vii) Thereafter, (A) to the General Partner in accordance with its Percentage Interest; (B) 48% to the holders of the Incentive Distribution Rights, Pro Rata; and (C) to all Unitholders, Pro Rata, a percentage equal to 100% less the sum of the percentages applicable to subclauses (A) and (B) of this clause (vii);  
*provided, however*, if the Minimum Quarterly Distribution, the First Target Distribution, the Second Target Distribution and the Third Target Distribution have been reduced to zero pursuant to the second sentence of Section 6.6(a), the distribution of Available Cash that is deemed to be Operating Surplus with respect to any Quarter will be made solely in accordance with Section 6.4(a)(vii).
- (b) *After Subordination Period.* Available Cash with respect to any Quarter after the Subordination Period that is deemed to be Operating Surplus pursuant to the provisions of Section 6.3 or Section 6.5 shall be distributed as follows, except as otherwise contemplated by Section 5.6(b) in respect of additional Partnership Interests issued pursuant thereto:
  - (i) First, 100% to the General Partner and the Unitholders, Pro Rata, until there has been distributed in respect of each Unit then Outstanding an amount equal to the Minimum Quarterly Distribution for such Quarter;
  - (ii) Second, 100% to the General Partner and the Unitholders, Pro Rata, until there has been distributed in respect of each Unit then Outstanding an amount equal to the excess of the First Target Distribution over the Minimum Quarterly Distribution for such Quarter;
  - (iii) Third, (A) to the General Partner in accordance with its Percentage Interest; (B) 13% to the holders of the Incentive Distribution Rights, Pro Rata; and (C) to all Unitholders, Pro Rata, a percentage equal to 100% less the sum of the percentages applicable to subclauses (A) and (B) of this clause (iii), until there has been distributed in respect of each Unit then Outstanding an amount equal to the excess of the Second Target Distribution over the First Target Distribution for such Quarter;
  - (iv) Fourth, (A) to the General Partner in accordance with its Percentage Interest; (B) 23% to the holders of the Incentive Distribution Rights, Pro Rata; and (C) to all Unitholders, Pro Rata, a percentage equal to 100% less the sum of the percentages applicable to subclauses (A) and (B) of this clause (iv), until there has been distributed in respect of each Unit then Outstanding an amount equal to the excess of the Third Target Distribution over the Second Target Distribution for such Quarter; and
  - (v) Thereafter, (A) to the General Partner in accordance with its Percentage Interest; (B) 48% to the holders of the Incentive Distribution Rights, Pro Rata; and (C) to all Unitholders, Pro Rata, a percentage equal to 100% less the sum of the percentages applicable to subclauses (A) and (B) of this clause (v);

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*provided, however, if the Minimum Quarterly Distribution, the First Target Distribution, the Second Target Distribution and the Third Target Distribution have been reduced to zero pursuant to the second sentence of Section 6.6(a), the distribution of Available Cash that is deemed to be Operating Surplus with respect to any Quarter will be made solely in accordance with Section 6.4(b)(v).*

*Section 6.5 Distributions of Available Cash from Capital Surplus.* Available Cash that is deemed to be Capital Surplus pursuant to the provisions of Section 6.3(a) shall be distributed, unless the provisions of Section 6.3 require otherwise, 100% to the General Partner and the Unitholders, Pro Rata, until the Minimum Quarterly Distribution has been reduced to zero pursuant to the second sentence of Section 6.6(a). Available Cash that is deemed to be Capital Surplus shall then be distributed (A) to the General Partner in accordance with its Percentage Interest and (B) to all Unitholders holding Common Units, Pro Rata, a percentage equal to 100% less the General Partner's Percentage Interest, until there has been distributed in respect of each Common Unit then Outstanding an amount equal to the Cumulative Common Unit Arrearage. Thereafter, all Available Cash shall be distributed as if it were Operating Surplus and shall be distributed in accordance with Section 6.4.

*Section 6.6 Adjustment of Minimum Quarterly Distribution and Target Distribution Levels.*

(a)

The Minimum Quarterly Distribution, First Target Distribution, Second Target Distribution, Third Target Distribution, Common Unit Arrearages and Cumulative Common Unit Arrearages shall be proportionately adjusted in the event of any distribution, combination or subdivision (whether effected by a distribution payable in Units or otherwise) of Units or other Partnership Interests in accordance with Section 5.9 but no adjustment shall be made in connection with the subdivision and conversion contemplated by Section 5.2. In the event of a distribution of Available Cash that is deemed to be from Capital Surplus, the then applicable Minimum Quarterly Distribution, First Target Distribution, Second Target Distribution and Third Target Distribution, shall be reduced in the same proportion that the distribution had to the fair market value of the Common Units immediately prior to the announcement of the distribution. If the Common Units are publicly traded on a National Securities Exchange, the fair market value will be the Current Market Price before the ex-dividend date. If the Common Units are not publicly traded, the fair market value will be determined by the Board of Directors.

(b)

The Minimum Quarterly Distribution, First Target Distribution, Second Target Distribution and Third Target Distribution, shall also be subject to adjustment pursuant to Section 5.11 and Section 6.9.

*Section 6.7 Special Provisions Relating to the Holders of Subordinated Units.*

(a)

Except with respect to the right to vote on or approve matters requiring the vote or approval of a percentage of the holders of Outstanding Common Units and the right to participate in allocations of income, gain, loss and deduction and distributions made with respect to Common Units, the holder of a Subordinated Unit shall have all of the rights and obligations of a Unitholder holding Common Units hereunder; provided, however, that immediately upon the conversion of Subordinated Units into Common Units pursuant to Section 5.7, the Unitholder holding a Subordinated Unit shall possess all of the rights and obligations of a Unitholder holding Common Units hereunder with respect to such converted Subordinated Units, including the right to vote as a Common Unitholder and the right to participate in allocations of income, gain, loss and deduction and distributions made with respect to Common Units; provided, however, that such converted Subordinated Units shall remain subject to the provisions of Section 5.5(c)(ii), Section 6.1(d)(x), Section 6.7(b) and Section 6.7(c).

(b)

A Unitholder shall not be permitted to transfer a Subordinated Unit or a Subordinated Unit that has converted into a Common Unit pursuant to Section 5.7 (other than a transfer to an

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Affiliate) if the remaining balance in the transferring Unitholder's Capital Account with respect to the retained Subordinated Units or Retained Converted Subordinated Units would be negative after giving effect to the allocation under Section 5.5(c)(ii)(B).

(c)

The Unitholder holding a Common Unit that has resulted from the conversion of a Subordinated Unit pursuant to Section 5.7 shall not be issued a Common Unit Certificate pursuant to Section 4.1, if the Common Units are evidenced by Certificates, and shall not be permitted to transfer such Common Unit to a Person that is not an Affiliate of the holder until such time as the General Partner determines, based on advice of counsel, that each such Common Unit should have, as a substantive matter, like intrinsic economic and federal income tax characteristics, in all material respects, to the intrinsic economic and federal income tax characteristics of an Initial Common Unit. In connection with the condition imposed by this Section 6.7(c), the General Partner may take whatever steps are required to provide economic uniformity to such Common Units in preparation for a transfer of such Common Units, including the application of Section 5.5(c)(ii), Section 6.1(d)(x) and Section 6.7(b); provided, however, that no such steps may be taken that would have a material adverse effect on the Unitholders holding Common Units.

*Section 6.8 Special Provisions Relating to the Holders of Incentive Distribution Rights.* Notwithstanding anything to the contrary set forth in this Agreement, the holders of the Incentive Distribution Rights (a) shall (i) possess the rights and obligations provided in this Agreement with respect to a Limited Partner pursuant to Article III and Article VII and (ii) have a Capital Account as a Partner pursuant to Section 5.5 and all other provisions related thereto and (b) shall not (i) be entitled to vote on any matters requiring the approval or vote of the holders of Outstanding Units, except as provided by law, (ii) be entitled to any distributions other than as provided in Section 6.4 and Section 12.4 or (iii) be allocated items of income, gain, loss or deduction other than as specified in this Article VI.

*Section 6.9 Entity-Level Taxation.* If legislation is enacted or the official interpretation of existing legislation is modified by a governmental authority, which after giving effect to such enactment or modification, results in a Group Member becoming subject to federal, state or local or non-U.S. income or withholding taxes in excess of the amount of such taxes due from the Group Member prior to such enactment or modification (including, for the avoidance of doubt, any increase in the rate of such taxation applicable to the Group Member), then the General Partner may, in its sole discretion, reduce the Minimum Quarterly Distribution, First Target Distribution, Second Target Distribution and Third Target Distribution by the amount of income or withholding taxes that are payable by reason of any such new legislation or interpretation (the "**Incremental Income Taxes**"), or any portion thereof selected by the General Partner, in the manner provided in this Section 6.9. If the General Partner elects to reduce the Minimum Quarterly Distribution, First Target Distribution, Second Target Distribution and Third Target Distribution for any Quarter with respect to all or a portion of any Incremental Income Taxes, the General Partner shall estimate for such Quarter the Partnership Group's aggregate liability (the "**Estimated Incremental Quarterly Tax Amount**") for all (or the relevant portion of) such Incremental Income Taxes; provided that any difference between such estimate and the actual liability for Incremental Income Taxes (or the relevant portion thereof) for such Quarter may, to the extent determined by the General Partner, be taken into account in determining the Estimated Incremental Quarterly Tax Amount with respect to each Quarter in which any such difference can be determined. For each such Quarter, the Minimum Quarterly Distribution, First Target Distribution, Second Target Distribution and Third Target Distribution, shall be the product obtained by multiplying (a) the amounts therefor that are set out herein prior to the application of this Section 6.9 times (b) the quotient obtained by dividing (i) Available Cash with respect to such Quarter by (ii) the sum of Available Cash with respect to such Quarter and the Estimated Incremental Quarterly Tax Amount for such Quarter, as determined by the General Partner. For purposes of the foregoing, Available Cash with respect to a Quarter will be deemed reduced by the Estimated Incremental Quarterly Tax Amount for that Quarter.



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**ARTICLE VII**

**MANAGEMENT AND OPERATION OF BUSINESS**

*Section 7.1 Management.*

- (a) The General Partner shall conduct, direct and manage all activities of the Partnership. Except as otherwise expressly provided in this Agreement, all management powers over the business and affairs of the Partnership shall be exclusively vested in the General Partner, and no Limited Partner shall have any management power over the business and affairs of the Partnership. In addition to the powers now or hereafter granted a general partner of a limited partnership under applicable law or that are granted to the General Partner under any other provision of this Agreement, the General Partner, subject to Section 7.3, shall have full power and authority to do all things and on such terms as it determines to be necessary or appropriate to conduct the business of the Partnership, to exercise all powers set forth in Section 2.5 and to effectuate the purposes set forth in Section 2.4, including the following:
- (i) the making of any expenditures, the lending or borrowing of money, the assumption or guarantee of, or other contracting for, indebtedness and other liabilities, the issuance of evidences of indebtedness, including indebtedness that is convertible or exchangeable into Partnership Interests, and the incurring of any other obligations;
  - (ii) the making of tax, regulatory and other filings, or rendering of periodic or other reports to governmental or other agencies having jurisdiction over the business or assets of the Partnership;
  - (iii) the acquisition, disposition, mortgage, pledge, encumbrance, hypothecation or exchange of any or all of the assets of the Partnership or the merger or other combination of the Partnership with or into another Person (the matters described in this clause (iii) being subject, however, to any prior approval that may be required by Section 7.3 or Article XIV);
  - (iv) the use of the assets of the Partnership (including cash on hand) for any purpose consistent with the terms of this Agreement, including the financing of the conduct of the operations of the Partnership Group; subject to Section 7.6(a), the lending of funds to other Persons (including other Group Members); the repayment or guarantee of obligations of any Group Member; and the making of capital contributions to any Group Member;
  - (v) the negotiation, execution and performance of any contracts, conveyances or other instruments (including instruments that limit the liability of the Partnership under contractual arrangements to all or particular assets of the Partnership, with the other party to the contract to have no recourse against the General Partner or its assets other than its interest in the Partnership, even if same results in the terms of the transaction being less favorable to the Partnership than would otherwise be the case);
  - (vi) the distribution of Partnership cash;
  - (vii) the selection and dismissal of employees (including employees having titles such as "president," "vice president," "secretary" and "treasurer") and agents, outside attorneys, accountants, consultants and contractors and the determination of their compensation and other terms of employment or hiring;
  - (viii) the maintenance of insurance for the benefit of the Partnership Group, the Partners and Indemnitees;

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- (ix) the formation of, or acquisition of an interest in, and the contribution of property and the making of loans to, any further limited or general partnerships, joint ventures, corporations, limited liability companies or other Persons (including the acquisition of interests in, and the contributions of property to, any Group Member from time to time) subject to the restrictions set forth in Section 2.4;
  - (x) the control of any matters affecting the rights and obligations of the Partnership, including the bringing and defending of actions at law or in equity and otherwise engaging in the conduct of litigation, arbitration or mediation and the incurring of legal expense and the settlement of claims and litigation;
  - (xi) the indemnification of any Person against liabilities and contingencies to the extent permitted by law;
  - (xii) the entering into of listing agreements with any National Securities Exchange and the delisting of some or all of the Limited Partner Interests from, or requesting that trading be suspended on, any such exchange (subject to any prior approval that may be required under Section 4.8);
  - (xiii) the purchase, sale or other acquisition or disposition of Partnership Interests, or the issuance of options, rights, warrants and appreciation rights relating to Partnership Interests;
  - (xiv) the undertaking of any action in connection with the Partnership's participation in any Group Member; and
  - (xv) the entering into of agreements with any of its Affiliates to render services to a Group Member or to itself in the discharge of its duties as General Partner of the Partnership.
- (b) Notwithstanding any other provision of this Agreement, any Group Member Agreement, the Delaware Act or any applicable law, rule or regulation, each of the Partners and each other Person who may acquire an interest in Partnership Interests or is otherwise bound by this Agreement hereby (i) approves, ratifies and confirms the execution, delivery and performance by the parties thereto of this Agreement, any Group Member Agreement of any other Group Member, the Contribution, Purchase and Sale Agreement, Underwriting Agreement and the other agreements described in or filed as exhibits to the Registration Statement that are related to the transactions contemplated by the Registration Statement (in each case other than this Agreement, without giving effect to any amendments, supplements or restatements after the date hereof); (ii) agrees that the General Partner (on its own or on behalf of the Partnership) is authorized to execute, deliver and perform the agreements referred to in clause (i) of this sentence and the other agreements, acts, transactions and matters described in or contemplated by the Registration Statement and the Contribution, Purchase and Sale Agreement on behalf of the Partnership without any further act, approval or vote of the Partners or the other Persons who may acquire an interest in Partnership Interests or is otherwise bound by this Agreement; and (iii) agrees that the execution, delivery or performance by the General Partner, any Group Member or any Affiliate of any of them of this Agreement or any agreement authorized or permitted under this Agreement (including the exercise by the General Partner or any Affiliate of the General Partner of the rights accorded pursuant to Article XV) shall not constitute a breach by the General Partner of any duty that the General Partner may owe the Partnership or the Limited Partners or any other Persons under this Agreement (or any other agreements) or of any duty existing at law, in equity or otherwise.

*Section 7.2 Certificate of Limited Partnership.* The General Partner has caused the Certificate of Limited Partnership to be filed with the Secretary of State of the State of Delaware as required by the Delaware Act. The General Partner shall use all reasonable efforts to cause to be filed such other

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certificates or documents that the General Partner determines to be necessary or appropriate for the formation, continuation, qualification and operation of a limited partnership (or a partnership in which the limited partners have limited liability) in the State of Delaware or any other state in which the Partnership may elect to do business or own property. To the extent the General Partner determines such action to be necessary or appropriate, the General Partner shall file amendments to and restatements of the Certificate of Limited Partnership and do all things to maintain the Partnership as a limited partnership (or a partnership or other entity in which the limited partners have limited liability) under the laws of the State of Delaware or of any other state in which the Partnership may elect to do business or own property. Subject to the terms of Section 3.4(a), the General Partner shall not be required, before or after filing, to deliver or mail a copy of the Certificate of Limited Partnership, any qualification document or any amendment thereto to any Limited Partner.

*Section 7.3 Restrictions on the General Partner's Authority.* Except as provided in Article XII and Article XIV, the General Partner may not sell, exchange or otherwise dispose of all or substantially all of the assets of the Partnership Group, taken as a whole, in a single transaction or a series of related transactions without the approval of holders of a Unit Majority; provided, however, that this provision shall not preclude or limit the General Partner's ability to, in the best interest of the Partnership Group, mortgage, pledge, hypothecate or grant a security interest in all or substantially all of the assets of the Partnership Group and shall not apply to any forced sale of any or all of the assets of the Partnership Group pursuant to the foreclosure of, or other realization upon, any such encumbrance.

*Section 7.4 Reimbursement of the General Partner.*

- (a) Except as provided in this Section 7.4 and elsewhere in this Agreement, the General Partner shall not be compensated for its services as a general partner or managing member of any Group Member.
- (b) The General Partner shall be reimbursed on a monthly basis, or such other basis as the General Partner may determine, for
  - (i) all direct and indirect expenses it incurs or payments it makes on behalf of the Partnership Group (including salary, bonus, incentive compensation and other amounts paid to any Person, including Affiliates of the General Partner, to perform services for the Partnership Group or for the General Partner in the discharge of its duties to the Partnership Group), and
  - (ii) all other expenses allocable to the Partnership Group or otherwise incurred by the General Partner in connection with operating the Partnership Group's business (including expenses allocated to the General Partner by its Affiliates). The General Partner shall determine the expenses that are allocable to the General Partner or the Partnership Group.
 Reimbursements pursuant to this Section 7.4 shall be in addition to any reimbursement to the General Partner as a result of indemnification pursuant to Section 7.7.
- (c) The General Partner, without the approval of the Limited Partners (who shall have no right to vote in respect thereof), may propose and adopt on behalf of the Partnership benefit plans, programs and practices (including plans, programs and practices involving the issuance of Partnership Interests or options to purchase or rights, warrants or appreciation rights or phantom or tracking interests relating to Partnership Interests), or cause the Partnership to issue Partnership Interests in connection with, or pursuant to, any benefit plan, program or practice maintained or sponsored by the General Partner or any of its Affiliates, in each case for the benefit of employees and directors of the General Partner or any of its Affiliates, in respect of services performed, directly or indirectly, for the benefit of the Partnership Group. The Partnership agrees to issue and sell to the General Partner or any of its Affiliates any Partnership Interests that the General Partner or such Affiliates are obligated to provide to any employees and directors pursuant to any such benefit plans, programs or practices. Expenses incurred by the General Partner in connection with any such plans, programs and practices (including the net cost to the General Partner or such Affiliates of Partnership Interests purchased by the General Partner or such Affiliates, from the Partnership, to fulfill

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options or awards under such plans, programs and practices) shall be reimbursed in accordance with Section 7.4(b). Any and all obligations of the General Partner under any benefit plans, programs or practices adopted by the General Partner as permitted by this Section 7.4(c) shall constitute obligations of the General Partner hereunder and shall be assumed by any successor General Partner approved pursuant to Section 11.1 or Section 11.2 or the transferee of or successor to all of the General Partner's General Partner Interest pursuant to Section 4.6.

(d)

The General Partner and its Affiliates may charge any member of the Partnership Group a management fee to the extent necessary to allow the Partnership Group to reduce the amount of any state franchise or income tax or any tax based upon the revenues or gross margin of any member of the Partnership Group if the tax benefit produced by the payment of such management fee or fees exceeds the amount of such fee or fees.

*Section 7.5 Outside Activities.*

(a)

The General Partner, for so long as it is the General Partner of the Partnership (i) agrees that its sole business will be to act as a general partner or managing member, as the case may be, of the Partnership and any other partnership or limited liability company of which the Partnership is, directly or indirectly, a partner or member and to undertake activities that are ancillary or related thereto (including being a Limited Partner in the Partnership) and (ii) shall not engage in any business or activity or incur any debts or liabilities except in connection with or incidental to (A) its performance as general partner or managing member, if any, of one or more Group Members as described and contemplated by this Agreement or the Registration Statement, or (B) the acquiring, owning or disposing of debt securities or equity interests in any Group Member.

(b)

Each Indemnitee (other than the General Partner) shall have the right to engage in businesses of every type and description and other activities for profit and to engage in and possess an interest in other business ventures of any and every type or description, whether in businesses engaged in or anticipated to be engaged in by any Group Member, independently or with others, including business interests and activities in direct competition with the business and activities of any Group Member, and none of the same shall constitute a breach of this Agreement or any duty otherwise existing at law, in equity or otherwise, to any Group Member or any Partner. None of any Group Member, any Limited Partner or any other Person shall have any rights by virtue of this Agreement, any Group Member Agreement, or the partnership relationship established hereby in any outside business ventures of any Indemnitee.

(c)

Subject to the terms of the limited liability company agreement of the General Partner, as may be amended from time to time, Sections 7.5(a) and (b), but otherwise notwithstanding anything to the contrary in this Agreement, (i) the engaging in competitive activities by any Indemnitee (other than the General Partner) in accordance with the provisions of this Section 7.5 is hereby approved by the Partnership and all Partners, (ii) it shall be deemed not to be a breach of any fiduciary duty or any other obligation of any type whatsoever of the General Partner or any other Indemnitee for the Indemnitees (other than the General Partner) to engage in such business interests and activities in preference to or to the exclusion of the Partnership and (iii) the Indemnitees shall have no obligation hereunder or as a result of any duty otherwise existing at law, in equity or otherwise, to present business opportunities to the Partnership. Notwithstanding anything to the contrary in this Agreement, the doctrine of corporate opportunity, or any analogous doctrine, shall not apply to any Indemnitee (including the General Partner). No Indemnitee (including the General Partner) who acquires knowledge of a potential transaction, agreement, arrangement or other matter that may be an opportunity for the Partnership shall have any duty to communicate or offer such opportunity

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to the Partnership, and such Indemnitee (including the General Partner) shall not be liable to the Partnership, to any Limited Partner or any other Person for breach of any fiduciary or other duty by reason of the fact that such Indemnitee (including the General Partner) pursues or acquires for itself, directs such opportunity to another Person or does not communicate such opportunity or information to the Partnership; provided such Indemnitee does not engage in such business or activity as a result of or using confidential or proprietary information provided by or on behalf of the Partnership to such Indemnitee.

(d)

The General Partner and each of its Affiliates may acquire Units or other Partnership Interests in addition to those acquired on the Closing Date and, except as otherwise provided in this Agreement, shall be entitled to exercise, at their option, all rights relating to all Units and/or other Partnership Interests acquired by them. The term "Affiliates" when used in this Section 7.5(d) with respect to the General Partner shall not include any Group Member.

(e)

Notwithstanding anything to the contrary in this Agreement, (i) to the extent that any provision of this Agreement purports or is interpreted to have the effect of restricting the fiduciary duties that might otherwise, as a result of Delaware or other applicable law, be owed by the General Partner to the Partnership and its Limited Partners, or to constitute a waiver or consent by the Limited Partners to any such restriction, such provisions shall be deemed to have been approved by the Partners and (ii) nothing in this Agreement shall limit or otherwise affect any separate contractual obligations outside of this Agreement of any Person (including any Indemnitee) to the Partnership or any of its Affiliates.

*Section 7.6 Loans from the General Partner; Loans or Contributions from the Partnership or Group Members.*

(a)

The General Partner or any of its Affiliates may, but shall be under no obligation to, lend to any Group Member, and any Group Member may borrow from the General Partner or any of its Affiliates, funds needed or desired by the Group Member for such periods of time and in such amounts as the General Partner may determine; provided, however, that in any such case the lending party may not charge the borrowing party interest at a rate greater than the rate that would be charged the borrowing party or impose terms less favorable to the borrowing party than would be charged or imposed on the borrowing party by unrelated lenders on comparable loans made on an arm's-length basis (without reference to the lending party's financial abilities or guarantees), all as determined by the General Partner. The borrowing party shall reimburse the lending party for any costs (other than any additional interest costs) incurred by the lending party in connection with the borrowing of such funds. For purposes of this Section 7.6(a) and Section 7.6(b), the term "Group Member" shall include any Affiliate of a Group Member that is controlled by the Group Member.

(b)

The Partnership may lend or contribute to any Group Member, and any Group Member may borrow from the Partnership, funds on terms and conditions determined by the General Partner. No Group Member may lend funds to the General Partner or any of its Affiliates (other than another Group Member).

(c)

No borrowing by any Group Member or the approval thereof by the General Partner shall be deemed to constitute a breach of any duty hereunder or otherwise existing at law, in equity or otherwise, of the General Partner or its Affiliates to the Partnership or the Limited Partners by reason of the fact that the purpose or effect of such borrowing is directly or indirectly to (i) enable distributions to the General Partner or its Affiliates (including in their capacities as Limited Partners) to exceed the General Partner's Percentage Interest of the total amount distributed to all Partners or (ii) hasten the expiration of the Subordination Period or the conversion of any Subordinated Units into Common Units.

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*Section 7.7 Indemnification.*

(a)

To the fullest extent permitted by law but subject to the limitations expressly provided in this Agreement, all Indemnitees shall be indemnified and held harmless by the Partnership from and against any and all losses, claims, damages, liabilities, joint or several, expenses (including legal fees and expenses), judgments, fines, penalties, interest, settlements or other amounts arising from any and all threatened, pending or completed claims, demands, actions, suits or proceedings, whether civil, criminal, administrative or investigative, and whether formal or informal and including appeals, in which any Indemnitee may be involved, or is threatened to be involved, as a party or otherwise, by reason of its status as an Indemnitee and acting (or refraining to act) in such capacity; provided, that an Indemnitee shall not be indemnified and held harmless pursuant to this Agreement if there has been a final and non-appealable judgment entered by a court of competent jurisdiction determining that, in respect of the matter for which the Indemnitee is seeking indemnification pursuant to this Agreement, the Indemnitee acted in bad faith or engaged in fraud, willful misconduct or, in the case of a criminal matter, acted with knowledge that the Indemnitee's conduct was unlawful. Any indemnification pursuant to this Section 7.7 shall be made only out of the assets of the Partnership, it being agreed that the General Partner shall not be personally liable for such indemnification and shall have no obligation to contribute or loan any monies or property to the Partnership to enable it to effectuate such indemnification.

(b)

To the fullest extent permitted by law, expenses (including legal fees and expenses) incurred by an Indemnitee who is indemnified pursuant to Section 7.7(a) in defending any claim, demand, action, suit or proceeding shall, upon receipt by the Partnership of any undertaking by or on behalf of the Indemnitee to repay such amount if it shall be ultimately determined that the Indemnitee is not entitled to be indemnified as authorized by this Section 7.7, be advanced by the Partnership, from time to time, prior to a final and non-appealable judgment entered by a court of competent jurisdiction determining that, in respect of the matter for which the Indemnitee is seeking indemnification pursuant to this Section 7.7, the Indemnitee is not entitled to be indemnified.

(c)

The indemnification provided by this Section 7.7 shall be in addition to any other rights to which an Indemnitee may be entitled under any agreement, pursuant to any vote of the holders of Outstanding Limited Partner Interests, as a matter of law, in equity or otherwise, both as to actions in the Indemnitee's capacity as an Indemnitee and as to actions in any other capacity (including any capacity under the Contribution, Purchase and Sale Agreement and the Underwriting Agreement), and shall continue as to an Indemnitee who has ceased to serve in such capacity and shall inure to the benefit of the heirs, successors, assigns and administrators of the Indemnitee.

(d)

The Partnership may purchase and maintain (or reimburse the General Partner or its Affiliates for the cost of) insurance, on behalf of the General Partner, its Affiliates and such other Persons as the General Partner shall determine, against any liability that may be asserted against, or expense that may be incurred by, such Person in connection with the Partnership's activities or such Person's activities on behalf of the Partnership, regardless of whether the Partnership would have the power to indemnify such Person against such liability under the provisions of this Agreement.

(e)

For purposes of this Section 7.7, the Partnership shall be deemed to have requested an Indemnitee to serve as fiduciary of an employee benefit plan whenever the performance by an Indemnitee of its duties to the Partnership also imposes duties on, or otherwise involves services by, the Indemnitee to the plan or participants or beneficiaries of the plan; excise taxes assessed on an Indemnitee with respect to an employee benefit plan pursuant to applicable law shall constitute "fines" within the meaning of Section 7.7(a); and action taken

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or omitted by it with respect to any employee benefit plan in the performance of its duties for a purpose reasonably believed by it to be in the best interest of the participants and beneficiaries of the plan shall be deemed to be for a purpose that is in the best interests of the Partnership.

- (f) In no event may an Indemnitee subject the Limited Partners to personal liability by reason of the indemnification provisions set forth in this Agreement.
- (g) An Indemnitee shall not be denied indemnification in whole or in part under this Section 7.7 because the Indemnitee had an interest in the transaction with respect to which the indemnification applies if the transaction was otherwise permitted by the terms of this Agreement.
- (h) The provisions of this Section 7.7 are for the benefit of the Indemnites and their heirs, successors, assigns, executors and administrators and shall not be deemed to create any rights for the benefit of any other Persons.
- (i) No amendment, modification or repeal of this Section 7.7 or any provision hereof shall in any manner terminate, reduce or impair the right of any past, present or future Indemnitee to be indemnified by the Partnership, nor the obligations of the Partnership to indemnify any such Indemnitee under and in accordance with the provisions of this Section 7.7 as in effect immediately prior to such amendment, modification or repeal with respect to claims arising from or relating to matters occurring, in whole or in part, prior to such amendment, modification or repeal, regardless of when such claims may arise or be asserted.

*Section 7.8 Liability of Indemnites.*

- (a) Notwithstanding anything to the contrary set forth in this Agreement, no Indemnitee shall be liable for monetary damages to the Partnership, the Limited Partners, or any other Persons who have acquired interests in the Partnership Interests, for losses sustained or liabilities incurred as a result of any act or omission of an Indemnitee unless there has been a final and non-appealable judgment entered by a court of competent jurisdiction determining that, in respect of the matter in question, the Indemnitee acted in bad faith or engaged in fraud, willful misconduct or, in the case of a criminal matter, acted with knowledge that the Indemnitee's conduct was criminal.
- (b) Subject to its obligations and duties as General Partner set forth in Section 7.1(a), the General Partner may exercise any of the powers granted to it by this Agreement and perform any of the duties imposed upon it hereunder either directly or by or through its agents, and the General Partner shall not be responsible for any misconduct or negligence on the part of any such agent appointed by the General Partner in good faith.
- (c) To the extent that, at law or in equity, an Indemnitee has duties (including fiduciary duties) and liabilities relating thereto to the Partnership or to the Partners, the General Partner and any other Indemnitee acting in connection with the Partnership's business or affairs shall not be liable to the Partnership or to any Partner for its good faith reliance on the provisions of this Agreement.
- (d) Any amendment, modification or repeal of this Section 7.8 or any provision hereof shall be prospective only and shall not in any way affect the limitations on the liability of the Indemnites under this Section 7.8 as in effect immediately prior to such amendment, modification or repeal with respect to claims arising from or relating to matters occurring, in whole or in part, prior to such amendment, modification or repeal, regardless of when such claims may arise or be asserted.

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*Section 7.9 Resolution of Conflicts of Interest; Standards of Conduct and Modification of Duties.*

(a)

Unless otherwise expressly provided in this Agreement or any Group Member Agreement, whenever a potential conflict of interest exists or arises between the General Partner or any of its Affiliates, on the one hand, and the Partnership, any Group Member or any Partner, on the other, any resolution or course of action by the General Partner or its Affiliates in respect of such conflict of interest shall be permitted and deemed approved by all Partners, and shall not constitute a breach of this Agreement, of any Group Member Agreement, of any agreement contemplated herein or therein, or of any duty stated or implied by law or equity, if the resolution or course of action in respect of such conflict of interest is (i) approved by Special Approval, (ii) approved by the vote of a majority of the Common Units (excluding Common Units owned by the General Partner and its Affiliates), (iii) on terms no less favorable to the Partnership than those generally being provided to or available from unrelated third parties or (iv) fair and reasonable to the Partnership, taking into account the totality of the relationships between the parties involved (including other transactions that may be particularly favorable or advantageous to the Partnership). The General Partner shall be authorized but not required in connection with its resolution of such conflict of interest to seek Special Approval or Unitholder approval of such resolution, and the General Partner may also adopt a resolution or course of action that has not received Special Approval or Unitholder approval. If Special Approval is sought, then it shall be presumed that, in making its decision, the Conflicts Committee acted in good faith, and if neither Special Approval nor Unitholder approval is sought and the Board of Directors determines that the resolution or course of action taken with respect to a conflict of interest satisfies either of the standards set forth in clauses (iii) or (iv) above, then it shall be presumed that, in making its decision, the Board of Directors acted in good faith, and in any proceeding brought by any Limited Partner or by or on behalf of such Limited Partner or any other Limited Partner or the Partnership challenging such approval, the Person bringing or prosecuting such proceeding shall have the burden of overcoming such presumption. Notwithstanding anything to the contrary in this Agreement or any duty otherwise existing at law or equity, the existence of the conflicts of interest described in the Registration Statement are hereby approved by all Partners and shall not constitute a breach of this Agreement or of any duty hereunder or existing at law, in equity or otherwise.

(b)

Whenever the General Partner, or any committee of the Board of Directors (including the Conflicts Committee), makes a determination or takes or declines to take any other action, or any of its Affiliates causes the General Partner to do so, in its capacity as the general partner of the Partnership as opposed to in its individual capacity, whether under this Agreement, any Group Member Agreement or any other agreement contemplated hereby or otherwise, then, unless another express standard is provided for in this Agreement, the General Partner, such committee or such Affiliates causing the General Partner to do so, shall make such determination or take or decline to take such other action in good faith and shall not be subject to any other or different standards (including fiduciary standards) imposed by this Agreement, any Group Member Agreement, any other agreement contemplated hereby or under the Delaware Act or any other law, rule or regulation or at equity. In order for a determination or other action to be in "good faith" for purposes of this Agreement, the Person or Persons making such determination or taking or declining to take such other action must believe that the determination or other action is in the best interests of the Partnership.

(c)

Whenever the General Partner makes a determination or takes or declines to take any other action, or any of its Affiliates causes it to do so, in its individual capacity as opposed to in its capacity as the general partner of the Partnership, whether under this Agreement, any Group Member Agreement or any other agreement contemplated hereby or otherwise, then



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the General Partner, or such Affiliates causing it to do so, are entitled, to the fullest extent permitted by law, to make such determination or to take or decline to take such other action free of any duty (including any fiduciary duty) or obligation whatsoever to the Partnership, any Limited Partner, and any other Person bound by this Agreement, and the General Partner, or such Affiliates causing it to do so, shall not, to the fullest extent permitted by law, be required to act in good faith or pursuant to any other standard imposed by this Agreement, any Group Member Agreement, any other agreement contemplated hereby or under the Delaware Act or any other law, rule or regulation or at equity. By way of illustration and not of limitation, whenever the phrases, "at the option of the General Partner," "in its sole discretion" or some variation of those phrases, are used in this Agreement, it indicates that the General Partner is acting in its individual capacity. For the avoidance of doubt, whenever the General Partner votes or transfers its Partnership Interests, or refrains from voting or transferring its Partnership Interests, it shall be acting in its individual capacity.

- (d) The General Partner's organizational documents may provide that determinations to take or decline to take any action in its individual, rather than representative, capacity may or shall be determined by its members, if the General Partner is a limited liability company, stockholders, if the General Partner is a corporation, or the members or stockholders of the General Partner's general partner, if the General Partner is a partnership.
- (e) Notwithstanding anything to the contrary in this Agreement, the General Partner and its Affiliates shall have no duty or obligation, express or implied, to (i) sell or otherwise dispose of any asset of the Partnership Group other than in the ordinary course of business or (ii) permit any Group Member to use any facilities or assets of the General Partner and its Affiliates, except as may be provided in contracts entered into from time to time specifically dealing with such use. Any determination by the General Partner or any of its Affiliates to enter into such contracts shall be in its sole discretion.
- (f) Except as expressly set forth in this Agreement or the Delaware Act, neither the General Partner nor any other Indemnitee shall have any duties or liabilities, including fiduciary duties, to the Partnership or any Limited Partner and the provisions of this Agreement, to the extent that they restrict, eliminate or otherwise modify the duties and liabilities, including fiduciary duties, of the General Partner or any other Indemnitee otherwise existing at law or in equity, are agreed by the Partners to replace such other duties and liabilities of the General Partner or such other Indemnitee.
- (g) The Unitholders hereby authorize the General Partner, on behalf of the Partnership as a partner or member of a Group Member, to approve of actions by the general partner or managing member of such Group Member similar to those actions permitted to be taken by the General Partner pursuant to this Section 7.9.

*Section 7.10 Other Matters Concerning the General Partner.*

- (a) The General Partner may rely upon, and shall be protected in acting or refraining from acting upon, any resolution, certificate, statement, instrument, opinion, report, notice, request, consent, order, bond, debenture or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties.
- (b) The General Partner may consult with legal counsel, accountants, appraisers, management consultants, investment bankers and other consultants and advisers selected by it, and any act taken or omitted to be taken in reliance upon the advice or opinion (including an Opinion of Counsel) of such Persons as to matters that the General Partner reasonably believes to be within such Person's professional or expert competence shall be conclusively presumed to have been done or omitted in good faith and in accordance with such advice or opinion.

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(c)

The General Partner shall have the right, in respect of any of its powers or obligations hereunder, to act through any of its duly authorized officers, a duly appointed attorney or attorneys-in-fact or the duly authorized officers of the Partnership.

*Section 7.11 Purchase or Sale of Partnership Interests.* The General Partner may cause the Partnership to purchase or otherwise acquire Partnership Interests; provided that, except as permitted pursuant to Section 4.10, the General Partner may not cause any Group Member to purchase Subordinated Units during the Subordination Period. As long as Partnership Interests are held by any Group Member, such Partnership Interests shall not be considered Outstanding for any purpose, except as otherwise provided herein. The General Partner or any Affiliate of the General Partner may also purchase or otherwise acquire and sell or otherwise dispose of Partnership Interests for its own account, subject to the provisions of Articles IV and X.

*Section 7.12 Reliance by Third Parties.* Notwithstanding anything to the contrary in this Agreement, any Person dealing with the Partnership shall be entitled to assume that the General Partner and any officer of the General Partner authorized by the General Partner to act on behalf of and in the name of the Partnership has full power and authority to encumber, sell or otherwise use in any manner any and all assets of the Partnership and to enter into any authorized contracts on behalf of the Partnership, and such Person shall be entitled to deal with the General Partner or any such officer as if it were the Partnership's sole party in interest, both legally and beneficially. Each Limited Partner hereby waives, to the fullest extent permitted by law, any and all defenses or other remedies that may be available against such Person to contest, negate or disaffirm any action of the General Partner or any such officer in connection with any such dealing. In no event shall any Person dealing with the General Partner or any such officer or its representatives be obligated to ascertain that the terms of this Agreement have been complied with or to inquire into the necessity or expedience of any act or action of the General Partner or any such officer or its representatives. Each and every certificate, document or other instrument executed on behalf of the Partnership by the General Partner or its representatives shall be conclusive evidence in favor of any and every Person relying thereon or claiming thereunder that (a) at the time of the execution and delivery of such certificate, document or instrument, this Agreement was in full force and effect, (b) the Person executing and delivering such certificate, document or instrument was duly authorized and empowered to do so for and on behalf of the Partnership and (c) such certificate, document or instrument was duly executed and delivered in accordance with the terms and provisions of this Agreement and is binding upon the Partnership.

**ARTICLE VIII**

**BOOKS, RECORDS, ACCOUNTING AND REPORTS**

*Section 8.1 Records and Accounting.* The General Partner shall keep or cause to be kept at the principal office of the Partnership appropriate books and records with respect to the Partnership's business, including all books and records necessary to provide to the Limited Partners any information required to be provided pursuant to Section 3.4(a). Any books and records maintained by or on behalf of the Partnership in the regular course of its business, including the record of the Record Holders of Units or other Partnership Interests, books of account and records of Partnership proceedings, may be kept on, or be in the form of, computer disks, hard drives, magnetic tape, photographs, micrographics or any other information storage device; provided, that the books and records so maintained are convertible into clearly legible written form within a reasonable period of time. The books of the Partnership shall be maintained, for financial reporting purposes, on an accrual basis in accordance with U.S. GAAP. The Partnership shall not be required to keep books maintained on a cash basis and the General Partner shall be permitted to calculate cash-based measures, including Operating Surplus and Adjusted Operating Surplus, by making such adjustments to its accrual basis books to account for non-cash items and other adjustments as the General Partner determines to be necessary or appropriate.

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*Section 8.2 Fiscal Year.* The fiscal year of the Partnership shall be a fiscal year ending March 31.

*Section 8.3 Reports.*

(a)

As soon as practicable, but in no event later than 90 days after the close of each fiscal year of the Partnership, the General Partner shall cause to be mailed or made available, by any reasonable means, to each Record Holder of a Unit as of a date selected by the General Partner, an annual report containing financial statements of the Partnership for such fiscal year of the Partnership, presented in accordance with U.S. GAAP, including a balance sheet and statements of operations, Partnership equity and cash flows, such statements to be audited by a firm of independent public accountants selected by the General Partner.

(b)

As soon as practicable, but in no event later than 45 days after the close of each Quarter except the last Quarter of each fiscal year, the General Partner shall cause to be mailed or made available, by any reasonable means to each Record Holder of a Unit, as of a date selected by the General Partner, a report containing unaudited financial statements of the Partnership and such other information as may be required by applicable law, regulation or rule of any National Securities Exchange on which the Units are listed or admitted to trading, or as the General Partner determines to be necessary or appropriate.

(c)

The General Partner shall be deemed to have made a report available to each Record Holder as required by this Section 8.3 if it has either (i) filed such report with the Commission via its Electronic Data Gathering, Analysis and Retrieval system and such report is publicly available on such system or (ii) made such report available on any publicly available website maintained by the Partnership.

**ARTICLE IX**

**TAX MATTERS**

*Section 9.1 Tax Returns and Information.* The Partnership shall timely file all returns of the Partnership that are required for federal, state and local income tax purposes on the basis of the accrual method and the taxable period or years that it is required by law to adopt, from time to time, as determined by the General Partner. In the event the Partnership is required to use a taxable period other than a year ending on December 31, the General Partner shall use reasonable efforts to change the taxable period of the Partnership to a year ending on December 31. The tax information (including any information necessary for unrelated business tax income calculations) reasonably required by Record Holders for federal and state income tax reporting purposes with respect to a taxable period shall be furnished to them within 90 days of the close of the calendar year in which the Partnership's taxable period ends. The classification, realization and recognition of income, gain, losses and deductions and other items shall be on the accrual method of accounting for federal income tax purposes.

*Section 9.2 Tax Elections.*

(a)

The Partnership shall make the election under Section 754 of the Code in accordance with applicable regulations thereunder, subject to the reservation of the right to seek to revoke any such election upon the General Partner's determination that such revocation is in the best interests of the Limited Partners. Notwithstanding any other provision herein contained, for the purposes of computing the adjustments under Section 743(b) of the Code, the General Partner shall be authorized (but not required) to adopt a convention whereby the price paid by a transferee of a Limited Partner Interest will be deemed to be the lowest quoted closing price of the Limited Partner Interests on any National Securities Exchange on which such Limited Partner Interests are listed or admitted to trading during the calendar month in which such transfer is deemed to occur pursuant to Section 6.2(f) without regard to the actual price paid by such transferee.

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(b)

Except as otherwise provided herein, the General Partner shall determine whether the Partnership should make any other elections permitted by the Code.

*Section 9.3 Tax Controversies.* Subject to the provisions hereof, the General Partner is designated as the Tax Matters Partner (as defined in the Code) and is authorized and required to represent the Partnership (at the Partnership's expense) in connection with all examinations of the Partnership's affairs by tax authorities, including resulting administrative and judicial proceedings, and to expend Partnership funds for professional services and costs associated therewith. Each Partner agrees to cooperate with the General Partner and to do or refrain from doing any or all things reasonably required by the General Partner to conduct such proceedings.

*Section 9.4 Withholding; Tax Payments.*

(a)

The General Partner may treat taxes paid by the Partnership on behalf of all or less than all of the Partners, either as a distribution of cash to such Partners or as a general expense of the Partnership, as determined appropriate under the circumstances by the General Partner.

(b)

Notwithstanding any other provision of this Agreement, the General Partner is authorized to take any action that may be required to cause the Partnership and other Group Members to comply with any withholding requirements established under the Code or any other federal, state or local law including pursuant to Sections 1441, 1442, 1445 and 1446 of the Code. To the extent that the Partnership is required or elects to withhold and pay over to any taxing authority any amount resulting from the allocation or distribution of income to any Partner (including by reason of Section 1446 of the Code), the General Partner may treat the amount withheld as a distribution of cash pursuant to Article VI or Section 12.4(c) in the amount of such withholding from such Partner.

**ARTICLE X**

**ADMISSION OF PARTNERS**

*Section 10.1 Admission of Limited Partners.*

(a)

Upon the issuance by the Partnership of Common Units to the Underwriters as described in Article V in connection with the Initial Public Offering, such parties shall be automatically admitted to the Partnership as Limited Partners in respect of the Common Units issued to them.

(b)

By acceptance of the transfer of any Limited Partner Interests in accordance with Article IV or the acceptance of any Limited Partner Interests issued pursuant to Article V or pursuant to a merger or consolidation or conversion pursuant to Article XIV, and except as provided in Section 4.9, each transferee of, or other such Person acquiring, a Limited Partner Interest (including any nominee holder or an agent or representative acquiring such Limited Partner Interests for the account of another Person) (i) shall be admitted to the Partnership as a Limited Partner with respect to the Limited Partner Interests so transferred or issued to such Person when any such transfer or admission is reflected in the books and records of the Partnership and such Limited Partner becomes the Record Holder of the Limited Partner Interests so transferred, (ii) shall become bound, and shall be deemed to have agreed to be bound, by the terms of this Agreement, (iii) represents that the transferee or other recipient has the capacity, power and authority to enter into this Agreement and (iv) makes the consents, acknowledgements and waivers contained in this Agreement, all with or without execution of this Agreement by such Person. The transfer of any Limited Partner Interests and the admission of any new Limited Partner shall not constitute an amendment to this Agreement. A Person may become a Limited Partner or Record Holder of a Limited Partner Interest without the consent or approval of any of the Partners. A Person may not become a

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Limited Partner without acquiring a Limited Partner Interest and until such Person is reflected in the books and records of the Partnership as the Record Holder of such Limited Partner Interest. The rights and obligations of a Person who is an Ineligible Holder shall be determined in accordance with Section 4.9.

(c)

The name and mailing address of each Limited Partner shall be listed on the books and records of the Partnership maintained for such purpose by the Partnership or the Transfer Agent. The General Partner shall update the books and records of the Partnership from time to time as necessary to reflect accurately the information therein (or shall cause the Transfer Agent to do so, as applicable). A Limited Partner Interest may be represented by a Certificate, as provided in Section 4.1.

(d)

Any transfer of a Limited Partner Interest shall not entitle the transferee to share in the profits and losses, to receive distributions, to receive allocations of income, gain, loss, deduction or credit or any similar item or to any other rights to which the transferor was entitled until the transferee becomes a Limited Partner pursuant to Section 10.1(b).

*Section 10.2 Admission of Successor General Partner.* A successor General Partner approved pursuant to Section 11.1 or Section 11.2 or the transferee of or successor to all of the General Partner Interest pursuant to Section 4.6 who is proposed to be admitted as a successor General Partner shall be admitted to the Partnership as the General Partner, effective immediately prior to the withdrawal or removal of the predecessor or transferring General Partner, pursuant to Section 11.1 or Section 11.2 or the transfer of the General Partner Interest pursuant to Section 4.6, provided, however, that no such successor shall be admitted to the Partnership until compliance with the terms of Section 4.6 has occurred and such successor has executed and delivered such other documents or instruments as may be required to effect such admission. Any such successor shall, subject to the terms hereof, carry on the business of the members of the Partnership Group without dissolution.

*Section 10.3 Amendment of Agreement and Certificate of Limited Partnership.* To effect the admission to the Partnership of any Partner, the General Partner shall take all steps necessary or appropriate under the Delaware Act to amend the records of the Partnership to reflect such admission and, if necessary, to prepare as soon as practicable an amendment to this Agreement and, if required by law, the General Partner shall prepare and file an amendment to the Certificate of Limited Partnership.

## ARTICLE XI

### WITHDRAWAL OR REMOVAL OF PARTNERS

*Section 11.1 Withdrawal of the General Partner.*

(a)

The General Partner shall be deemed to have withdrawn from the Partnership upon the occurrence of any one of the following events (each such event herein referred to as an "*Event of Withdrawal*");

(i)

The General Partner voluntarily withdraws from the Partnership by giving written notice to the other Partners;

(ii)

The General Partner transfers all of its General Partner Interest pursuant to Section 4.6;

(iii)

The General Partner is removed pursuant to Section 11.2;

(iv)

The General Partner (A) makes a general assignment for the benefit of creditors; (B) files a voluntary bankruptcy petition for relief under Chapter 7 of the United States Bankruptcy Code; (C) files a petition or answer seeking for itself a liquidation, dissolution or similar relief (but not a reorganization) under any law; (D) files an answer or other pleading admitting or failing to contest the material allegations of a petition filed against the General Partner in a proceeding of the type described in clauses (A)-(C) of

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this Section 11.1(a)(iv); or (E) seeks, consents to or acquiesces in the appointment of a trustee (but not a debtor-in-possession), receiver or liquidator of the General Partner or of all or any substantial part of its properties;

(v)

A final and non-appealable order of relief under Chapter 7 of the United States Bankruptcy Code is entered by a court with appropriate jurisdiction pursuant to a voluntary or involuntary petition by or against the General Partner; or

(vi)

(A) In the event the General Partner is a corporation, a certificate of dissolution or its equivalent is filed for the General Partner, or 90 days expire after the date of notice to the General Partner of revocation of its charter without a reinstatement of its charter, under the laws of its state of incorporation; (B) in the event the General Partner is a partnership or a limited liability company, the dissolution and commencement of winding up of the General Partner; (C) in the event the General Partner is acting in such capacity by virtue of being a trustee of a trust, the termination of the trust; (D) in the event the General Partner is a natural person, his death or adjudication of incompetency; and (E) otherwise in the event of the termination of the General Partner.

If an Event of Withdrawal specified in Section 11.1(a)(iv), Section 11.1(a)(v) or Section 11.1(a)(vi)(A), (B), Section 11.1(a)(vi) or (E) occurs, the withdrawing General Partner shall give written notice to the Limited Partners within 30 days after such occurrence. The Partners hereby agree that only the Events of Withdrawal described in this Section 11.1 shall result in the withdrawal of the General Partner from the Partnership.

(b)

Withdrawal of the General Partner from the Partnership upon the occurrence of an Event of Withdrawal shall not constitute a breach of this Agreement under the following circumstances:

(i)

at any time during the period beginning on the Closing Date and ending at 11:59 p.m., prevailing Central Time, on the first day of the first Quarter beginning after the tenth anniversary of the Closing Date, the General Partner voluntarily withdraws by giving at least 90 days' advance written notice of its intention to withdraw to the Limited Partners; provided, that prior to the effective date of such withdrawal, the withdrawal is approved by Unitholders holding at least a majority of the Outstanding Common Units (excluding Common Units held by the General Partner and its Affiliates) and the General Partner delivers to the Partnership an Opinion of Counsel ("**Withdrawal Opinion of Counsel**") that such withdrawal (following the selection of the successor General Partner) would not result in the loss of the limited liability under the Delaware Act of any Limited Partner or cause any Group Member to be treated as an association taxable as a corporation or otherwise to be taxed as an entity for federal income tax purposes (to the extent not already so treated or taxed);

(ii)

at any time after 11:59 p.m., prevailing Central Time, on the first day of the first Quarter beginning after the tenth anniversary of the Closing Date, the General Partner voluntarily withdraws by giving at least 90 days' advance written notice to the Unitholders, such withdrawal to take effect on the date specified in such notice;

(iii)

at any time that the General Partner ceases to be the General Partner pursuant to Section 11.1(a)(ii) or is removed pursuant to Section 11.2; or

(iv)

notwithstanding clause (i) of this sentence, at any time that the General Partner voluntarily withdraws by giving at least 90 days' advance written notice of its intention to withdraw to the Limited Partners, such withdrawal to take effect on the date specified in the notice, if at the time such notice is given one Person and its Affiliates (other than the General Partner and its Affiliates) own beneficially or of record or control at least

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50% of the Outstanding Units. The withdrawal of the General Partner from the Partnership upon the occurrence of an Event of Withdrawal shall also constitute the withdrawal of the General Partner as general partner or managing member, if any, to the extent applicable, of the other Group Members. If the General Partner gives a notice of withdrawal pursuant to Section 11.1(a)(i), the holders of a Unit Majority, may, prior to the effective date of such withdrawal, elect a successor General Partner. The Person so elected as successor General Partner shall automatically become the successor general partner or managing member, to the extent applicable, of the other Group Members of which the General Partner is a general partner or a managing member. If, prior to the effective date of the General Partner's withdrawal pursuant to Section 11.1(a)(i), a successor is not selected by the Unitholders as provided herein or the Partnership does not receive a Withdrawal Opinion of Counsel, the Partnership shall be dissolved in accordance with Section 12.1 unless the business of the Partnership is continued pursuant to Section 12.2. Any successor General Partner elected in accordance with the terms of this Section 11.1 shall be subject to the provisions of Section 10.2.

*Section 11.2 Removal of the General Partner.* The General Partner may be removed if such removal is approved by the Unitholders holding at least 66<sup>2</sup>/<sub>3</sub>% of the Outstanding Units (including Units held by the General Partner and its Affiliates) voting as a single class. Any such action by such holders for removal of the General Partner must also provide for the election of a successor General Partner by the Unitholders holding a majority of the Outstanding Common Units, voting as a class, and a majority of the Outstanding Subordinated Units, voting as a class (including, in each case, Units held by the General Partner and its Affiliates). Such removal shall be effective immediately following the admission of a successor General Partner pursuant to Section 10.2. The removal of the General Partner shall also automatically constitute the removal of the General Partner as general partner or managing member, to the extent applicable, of the other Group Members of which the General Partner is a general partner or a managing member. If a Person is elected as a successor General Partner in accordance with the terms of this Section 11.2, such Person shall, upon admission pursuant to Section 10.2, automatically become a successor general partner or managing member, to the extent applicable, of the other Group Members of which the General Partner is a general partner or a managing member. The right of the holders of Outstanding Units to remove the General Partner shall not exist or be exercised unless the Partnership has received an opinion opining as to the matters covered by a Withdrawal Opinion of Counsel. Any successor General Partner elected in accordance with the terms of this Section 11.2 shall be subject to the provisions of Section 10.2.

*Section 11.3 Interest of Departing General Partner and Successor General Partner.*

(a)

In the event of (i) withdrawal of the General Partner under circumstances where such withdrawal does not violate this Agreement or (ii) removal of the General Partner by the holders of Outstanding Units under circumstances where Cause does not exist, if the successor General Partner is elected in accordance with the terms of Section 11.1 or Section 11.2, the Departing General Partner shall have the option, exercisable prior to the effective date of the withdrawal or removal of such Departing General Partner, to require its successor to purchase its General Partner Interest and its or its Affiliates' or beneficial owners' general partner interest (or equivalent interest), if any, in the other Group Members and all of its or its Affiliates' Incentive Distribution Rights (collectively, the "**Combined Interest**") in exchange for an amount in cash equal to the fair market value of such Combined Interest, such amount to be determined and payable as of the effective date of its withdrawal or removal. If the General Partner is removed by the Unitholders under circumstances where Cause exists or if the General Partner withdraws under circumstances where such withdrawal violates this Agreement, and if a successor General Partner is elected in accordance with the terms of Section 11.1 or Section 11.2 (or if the business of the Partnership is continued pursuant to Section 12.2 and the successor General Partner is not the former General Partner), such

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successor shall have the option, exercisable prior to the effective date of the withdrawal or removal of such Departing General Partner (or, in the event the business of the Partnership is continued, prior to the date the business of the Partnership is continued), to purchase the Combined Interest for such fair market value of such Combined Interest. In either event, the Departing General Partner shall be entitled to receive all reimbursements due such Departing General Partner pursuant to Section 7.4, including any employee-related liabilities (including severance liabilities), incurred in connection with the termination of any employees employed by the Departing General Partner or its Affiliates (other than any Group Member) for the benefit of the Partnership or the other Group Members.

For purposes of this Section 11.3(a), the fair market value of the Combined Interest shall be determined by agreement between the Departing General Partner and its successor or, failing agreement within 30 days after the effective date of such Departing General Partner's withdrawal or removal, by an independent investment banking firm or other independent expert selected by the Departing General Partner and its successor as General Partner, which, in turn, may rely on other experts, and the determination of which shall be conclusive as to such matter. If such parties cannot agree upon one independent investment banking firm or other independent expert within 45 days after the effective date of such withdrawal or removal, then the Departing General Partner shall designate an independent investment banking firm or other independent expert, the Departing General Partner's successor as General Partner shall designate an independent investment banking firm or other independent expert, and such firms or experts shall mutually select a third independent investment banking firm or other independent expert, which third independent investment banking firm or other independent expert shall determine the fair market value of the Combined Interest. In making its determination, such third independent investment banking firm or other independent expert shall consider the value of the Units, including the then current trading price of Units on any National Securities Exchange on which Units are then listed or admitted to trading, the value of the Partnership's assets, the rights and obligations of the Departing General Partner (including an appropriate "control premium"), the value of the Incentive Distribution Rights and the General Partner Interest and other factors it may deem relevant.

(b)

If the Combined Interest is not purchased in the manner set forth in Section 11.3(a), the Departing General Partner (or its transferee) shall become a Limited Partner and the Combined Interest shall be converted into Common Units pursuant to a valuation made by an investment banking firm or other independent expert selected pursuant to Section 11.3(a), without reduction in such Partnership Interest (but subject to proportionate dilution by reason of the admission of its successor). Any successor General Partner shall indemnify the Departing General Partner (or its transferee) as to all debts and liabilities of the Partnership arising on or after the date on which the Departing General Partner (or its transferee) becomes a Limited Partner. For purposes of this Agreement, conversion of the Combined Interest to Common Units will be characterized as if the Departing General Partner (or its transferee) contributed the Combined Interest to the Partnership in exchange for the newly issued Common Units.

(c)

If a successor General Partner is elected in accordance with the terms of Section 11.1 or Section 11.2 (or if the business of the Partnership is continued pursuant to Section 12.2 and the successor General Partner is not the former General Partner) and the option described in Section 11.3(a) is not exercised by the party entitled to do so, the successor General Partner shall, at the effective date of its admission to the Partnership, contribute to the Partnership cash in the amount equal to the product of (x) the quotient obtained by dividing (A) the Percentage Interest of the General Partner Interest of the Departing General Partner by (B) a percentage equal to 100% less the Percentage Interest of the General Partner Interest of the Departing General Partner and (y) the Net Agreed Value of the Partnership's assets on such



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date. In such event, such successor General Partner shall, subject to the following sentence, be entitled to its Percentage Interest of all Partnership allocations and distributions to which the Departing General Partner was entitled. In addition, the successor General Partner shall cause this Agreement to be amended to reflect that, from and after the date of such successor General Partner's admission, the successor General Partner's interest in all Partnership distributions and allocations shall be its Percentage Interest.

*Section 11.4 Termination of Subordination Period, Conversion of Subordinated Units and Extinguishment of Cumulative Common Unit Arrearages.* Notwithstanding any provision of this Agreement, if the General Partner is removed as general partner of the Partnership under circumstances where Cause does not exist:

- (a) the Subordinated Units held by any Person will immediately and automatically convert into Common Units on a one-for-one basis, provided (i) neither such Person nor any of its Affiliates voted any of its Units in favor of the removal and (ii) such Person is not an Affiliate of the successor General Partner; and
- (b) if all of the Subordinated Units convert into Common Units pursuant to Section 11.4(a), all Cumulative Common Unit Arrearages on the Common Units will be extinguished and the Subordination Period will end;

*provided, however,* that such converted Subordinated Units shall remain subject to the provisions of Section 5.5(c)(ii), Section 6.1(d)(x) and Section 6.7.

*Section 11.5 Withdrawal of Limited Partners.* No Limited Partner shall have any right to withdraw from the Partnership; provided, however, that when a transferee of a Limited Partner's Limited Partner Interest becomes a Record Holder of the Limited Partner Interest so transferred, such transferring Limited Partner shall cease to be a Limited Partner with respect to the Limited Partner Interest so transferred.

## ARTICLE XII

### DISSOLUTION AND LIQUIDATION

*Section 12.1 Dissolution.* The Partnership shall not be dissolved by the admission of additional Limited Partners or by the admission of a successor General Partner in accordance with the terms of this Agreement. Upon the removal or withdrawal of the General Partner, if a successor General Partner is elected pursuant to Section 10.2, Section 11.1, Section 11.2 or Section 12.2, the Partnership shall not be dissolved and such successor General Partner is hereby authorized to, and shall, continue the business of the Partnership. Subject to Section 12.2, the Partnership shall dissolve, and its affairs shall be wound up, upon:

- (a) an Event of Withdrawal of the General Partner as provided in Section 11.1(a) (other than Section 11.1(a)(ii)), unless a successor is elected and such successor is admitted to the Partnership pursuant to this Agreement;
- (b) an election to dissolve the Partnership by the General Partner that is approved by the holders of a Unit Majority;
- (c) the entry of a decree of judicial dissolution of the Partnership pursuant to the provisions of the Delaware Act; or
- (d) at any time there are no Limited Partners, unless the Partnership is continued without dissolution in accordance with the Delaware Act.

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*Section 12.2 Continuation of the Business of the Partnership After Dissolution.* Upon (a) an Event of Withdrawal caused by the withdrawal or removal of the General Partner as provided in Section 11.1(a)(i) or (iii) and the failure of the Partners to select a successor to such Departing General Partner pursuant to Section 11.1 or Section 11.2, then within 90 days thereafter, or (b) an event constituting an Event of Withdrawal as defined in Section 11.1(a)(iv), (v) or (vi), then, to the maximum extent permitted by law, within 180 days thereafter, the holders of a Unit Majority may elect to continue the business of the Partnership on the same terms and conditions set forth in this Agreement by appointing as a successor General Partner a Person approved by the holders of a Unit Majority. Unless such an election is made within the applicable time period as set forth above, the Partnership shall conduct only activities necessary to wind up its affairs. If such an election is so made, then:

- (i) the Partnership shall continue without dissolution unless earlier dissolved in accordance with this Article XII;
- (ii) if the successor General Partner is not the former General Partner, then the interest of the former General Partner shall be treated in the manner provided in Section 11.3; and
- (iii) the successor General Partner shall be admitted to the Partnership as General Partner, effective as of the Event of Withdrawal, by agreeing in writing to be bound by this Agreement; provided, that the right of the holders of a Unit Majority to approve a successor General Partner and to continue the business of the Partnership shall not exist and may not be exercised unless the Partnership has received an Opinion of Counsel that (x) the exercise of the right would not result in the loss of limited liability under the Delaware Act of any Limited Partner and (y) neither the Partnership nor any Group Member would be treated as an association taxable as a corporation or otherwise be taxable as an entity for federal income tax purposes upon the exercise of such right to continue (to the extent not already so treated or taxed).

*Section 12.3 Liquidator.* Upon dissolution of the Partnership, unless the business of the Partnership is continued pursuant to Section 12.2, the General Partner shall select one or more Persons to act as Liquidator. The Liquidator (if other than the General Partner) shall be entitled to receive such compensation for its services as may be approved by holders of at least a majority of the Outstanding Common Units and Subordinated Units, voting as a single class. The Liquidator (if other than the General Partner) shall agree not to resign at any time without 15 days' prior notice and may be removed at any time, with or without cause, by notice of removal approved by holders of at least a majority of the Outstanding Common Units and Subordinated Units, voting as a single class. Upon dissolution, removal or resignation of the Liquidator, a successor and substitute Liquidator (who shall have and succeed to all rights, powers and duties of the original Liquidator) shall within 30 days thereafter be approved by holders of at least a majority of the Outstanding Common Units and Subordinated Units, voting as a single class. The right to approve a successor or substitute Liquidator in the manner provided herein shall be deemed to refer also to any such successor or substitute Liquidator approved in the manner herein provided. Except as expressly provided in this Article XII, the Liquidator approved in the manner provided herein shall have and may exercise, without further authorization or consent of any of the parties hereto, all of the powers conferred upon the General Partner under the terms of this Agreement (but subject to all of the applicable limitations, contractual and otherwise, upon the exercise of such powers, other than the limitation on sale set forth in Section 7.3) necessary or appropriate to carry out the duties and functions of the Liquidator hereunder for and during the period of time required to complete the winding up and liquidation of the Partnership as provided for herein.

*Section 12.4 Liquidation.* The Liquidator shall proceed to dispose of the assets of the Partnership, discharge its liabilities, and otherwise wind up its affairs in such manner and over such period as determined by the Liquidator, subject to Section 17-804 of the Delaware Act and the following:

- (a) The assets may be disposed of by public or private sale or by distribution in kind to one or more Partners on such terms as the Liquidator and such Partner or Partners may agree. If

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any property is distributed in kind, the Partner receiving the property shall be deemed for purposes of Section 12.4(c) to have received cash equal to its fair market value; and contemporaneously therewith, appropriate cash distributions must be made to the other Partners. The Liquidator may defer liquidation or distribution of the Partnership's assets for a reasonable time if it determines that an immediate sale or distribution of all or some of the Partnership's assets would be impractical or would cause undue loss to the Partners. The Liquidator may distribute the Partnership's assets, in whole or in part, in kind if it determines that a sale would be impractical or would cause undue loss to the Partners.

(b)

Liabilities of the Partnership include amounts owed to the Liquidator as compensation for serving in such capacity (subject to the terms of Section 12.3) and amounts to Partners otherwise than in respect of their distribution rights under Article VI. With respect to any liability that is contingent, conditional or unmatured or is otherwise not yet due and payable, the Liquidator shall either settle such claim for such amount as it thinks appropriate or establish a reserve of cash or other assets to provide for its payment. When paid, any unused portion of the reserve shall be distributed as additional liquidation proceeds.

(c)

All property and all cash in excess of that required to discharge liabilities as provided in Section 12.4(b) shall be distributed to the Partners in accordance with, and to the extent of, the positive balances in their respective Capital Accounts, as determined after taking into account all Capital Account adjustments (other than those made by reason of distributions pursuant to this Section 12.4(c)) for the taxable period of the Partnership during which the liquidation of the Partnership occurs (with such date of occurrence being determined pursuant to Treasury Regulation Section 1.704-1(b)(2)(ii)(g)), and such distribution shall be made by the end of such taxable period (or, if later, within 90 days after said date of such occurrence).

*Section 12.5 Cancellation of Certificate of Limited Partnership.* Upon the completion of the distribution of Partnership cash and property as provided in Section 12.4 in connection with the liquidation of the Partnership, the Certificate of Limited Partnership and all qualifications of the Partnership as a foreign limited partnership in jurisdictions other than the State of Delaware shall be canceled and such other actions as may be necessary to terminate the Partnership shall be taken.

*Section 12.6 Return of Contributions.* The General Partner shall not be personally liable for, and shall have no obligation to contribute or loan any monies or property to the Partnership to enable it to effectuate, the return of the Capital Contributions of the Limited Partners or Unitholders, or any portion thereof, it being expressly understood that any such return shall be made solely from Partnership assets.

*Section 12.7 Waiver of Partition.* To the maximum extent permitted by law, each Partner hereby waives any right to partition of the Partnership property.

*Section 12.8 Capital Account Restoration.* No Limited Partner shall have any obligation to restore any negative balance in its Capital Account upon liquidation of the Partnership. The General Partner shall be obligated to restore any negative balance in its Capital Account upon liquidation of its interest in the Partnership by the end of the taxable period of the Partnership during which such liquidation occurs, or, if later, within 90 days after the date of such liquidation.

## ARTICLE XIII

### AMENDMENT OF PARTNERSHIP AGREEMENT; MEETINGS; RECORD DATE

*Section 13.1 Amendments to be Adopted Solely by the General Partner.* Each Partner agrees that the General Partner, without the approval of any Partner, may amend any provision of this Agreement

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and execute, swear to, acknowledge, deliver, file and record whatever documents may be required in connection therewith, to reflect:

- (a) a change in the name of the Partnership, the location of the principal place of business of the Partnership, the registered agent of the Partnership or the registered office of the Partnership;
- (b) admission, substitution, withdrawal or removal of Partners in accordance with this Agreement;
- (c) a change that the General Partner determines to be necessary or appropriate to qualify or continue the qualification of the Partnership as a limited partnership or a partnership in which the Limited Partners have limited liability under the laws of any state or to ensure that the Group Members will not be treated as associations taxable as corporations or otherwise taxed as entities for federal income tax purposes;
- (d) a change that the General Partner determines (i) does not adversely affect the Limited Partners (including any particular class of Partnership Interests as compared to other classes of Partnership Interests) in any material respect, (ii) to be necessary or appropriate to (A) satisfy any requirements, conditions or guidelines contained in any opinion, directive, order, ruling or regulation of any federal or state agency or judicial authority or contained in any federal or state statute (including the Delaware Act) or (B) facilitate the trading of the Units (including the division of any class or classes of Outstanding Units into different classes to facilitate uniformity of tax consequences within such classes of Units) or comply with any rule, regulation, guideline or requirement of any National Securities Exchange on which the Units are or will be listed or admitted to trading, (iii) to be necessary or appropriate in connection with action taken by the General Partner pursuant to Section 5.9 or (iv) is required to effect the intent expressed in the Registration Statement or the intent of the provisions of this Agreement or the Contribution, Purchase and Sale Agreement or is otherwise contemplated by this Agreement or the Contribution, Purchase and Sale Agreement;
- (e) a change in the fiscal year or taxable period of the Partnership and any other changes that the General Partner determines to be necessary or appropriate as a result of a change in the fiscal year or taxable period of the Partnership including, if the General Partner shall so determine, a change in the definition of "Quarter" and the dates on which distributions are to be made by the Partnership;
- (f) an amendment that is necessary, in the Opinion of Counsel, to prevent the Partnership, or the General Partner or its directors, officers, trustees or agents from in any manner being subjected to the provisions of the Investment Company Act of 1940, as amended, the Investment Advisers Act of 1940, as amended, or "plan asset" regulations adopted under the Employee Retirement Income Security Act of 1974, as amended, regardless of whether such are substantially similar to plan asset regulations currently applied or proposed by the United States Department of Labor;
- (g) an amendment that the General Partner determines to be necessary or appropriate in connection with the creation, authorization or issuance of any class or series of Partnership Interests and options, rights, warrants and appreciation rights relating to the Partnership Interests pursuant to Section 5.6;
- (h) any amendment expressly permitted in this Agreement to be made by the General Partner acting alone;
- (i) an amendment effected, necessitated or contemplated by a Merger Agreement approved in accordance with Section 14.3;
- (j) an amendment that the General Partner determines to be necessary or appropriate to reflect and account for the formation by the Partnership of, or investment by the Partnership in, any corporation, partnership, joint venture, limited liability company or other entity, in connection

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with the conduct by the Partnership of activities permitted by the terms of Section 2.4 or 7.1(a);

(k)

a merger, conveyance or conversion pursuant to Section 14.3(d); or

(l)

any other amendments substantially similar to the foregoing.

*Section 13.2 Amendment Procedures.* Amendments to this Agreement may be proposed only by the General Partner. To the fullest extent permitted by law, the General Partner shall have no duty or obligation to propose or approve any amendment to this Agreement and may decline to do so in its sole discretion, and, in declining to propose or approve an amendment, to the fullest extent permitted by law shall not be required to act in good faith or pursuant to any other standard imposed by this Agreement, any Group Member Agreement, any other agreement contemplated hereby or under the Delaware Act or any other law, rule or regulation or at equity. An amendment shall be effective upon its approval by the General Partner and, except as otherwise provided by Section 13.1 or 13.3, the holders of a Unit Majority, unless a greater or different percentage is required under this Agreement or by Delaware law. Each proposed amendment that requires the approval of the holders of a specified percentage of Outstanding Units shall be set forth in a writing that contains the text of the proposed amendment. If such an amendment is proposed, the General Partner shall seek the written approval of the requisite percentage of Outstanding Units or call a meeting of the Unitholders to consider and vote on such proposed amendment. The General Partner shall notify all Record Holders upon final adoption of any amendments. The General Partner shall be deemed to have notified all Record Holders as required by this Section 13.2 if it has either (i) filed such amendment with the Commission via its Electronic Data Gathering, Analysis and Retrieval system and such amendment is publicly available on such system or (ii) made such amendment available on any publicly available website maintained by the Partnership.

*Section 13.3 Amendment Requirements.*

(a)

Notwithstanding the provisions of Section 13.1 and Section 13.2, no provision of this Agreement that establishes a percentage of Outstanding Units (including Units deemed owned by the General Partner) required to take any action shall be amended, altered, changed, repealed or rescinded in any respect that would have the effect of (i) in the case of any provision of this Agreement other than Section 11.2 or Section 13.4, reducing such percentage or (ii) in the case of Section 11.2 or Section 13.4, increasing such percentage, unless such amendment is approved by the written consent or the affirmative vote of holders of Outstanding Units whose aggregate Outstanding Units constitute not less than the voting requirement sought to be reduced or increased, as applicable.

(b)

Notwithstanding the provisions of Section 13.1 and Section 13.2, no amendment to this Agreement may (i) enlarge the obligations of (including requiring any holder of a class of Partnership Interests to make additional Capital Contributions to the Partnership) any Limited Partner without its consent, unless such shall be deemed to have occurred as a result of an amendment approved pursuant to Section 13.3(c), or (ii) enlarge the obligations of, restrict, change or modify in any way any action by or rights of, or reduce in any way the amounts distributable, reimbursable or otherwise payable to, the General Partner or any of its Affiliates without its consent, which consent may be given or withheld at its option.

(c)

Except as provided in Section 14.3 or Section 13.1, any amendment that would have a material adverse effect on the rights or preferences of any class of Partnership Interests in relation to other classes of Partnership Interests must be approved by the holders of not less than a majority of the Outstanding Partnership Interests of the class affected. If the General Partner determines an amendment does not satisfy the requirements of Section 13.1(d)(i) because it adversely affects one or more classes of Partnership Interests, as compared to other classes of Partnership Interests, in any material respect, such amendment shall only be required to be approved by the adversely affected class or classes.

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(d)

Notwithstanding any other provision of this Agreement, except for amendments pursuant to Section 13.1 and except as otherwise provided by Section 14.3(b), no amendments shall become effective without the approval of the holders of at least 90% of the Outstanding Units voting as a single class unless the Partnership obtains an Opinion of Counsel to the effect that such amendment will not affect the limited liability of any Limited Partner under applicable partnership law of the state under whose laws the Partnership is organized.

(e)

Except as provided in Section 13.1, this Section 13.3 shall only be amended with the approval of the holders of at least 90% of the Outstanding Units.

*Section 13.4 Special Meetings.* All acts of Limited Partners to be taken pursuant to this Agreement shall be taken in the manner provided in this Article XIII. Special meetings of the Limited Partners may be called by the General Partner or by Limited Partners owning 20% or more of the Outstanding Units of the class or classes for which a meeting is proposed. Limited Partners shall call a special meeting by delivering to the General Partner one or more requests in writing stating that the signing Limited Partners wish to call a special meeting and indicating the general or specific purposes for which the special meeting is to be called. Within 60 days after receipt of such a call from Limited Partners or within such greater time as may be reasonably necessary for the Partnership to comply with any statutes, rules, regulations, listing agreements or similar requirements governing the holding of a meeting or the solicitation of proxies for use at such a meeting, the General Partner shall send a notice of the meeting to the Limited Partners either directly or indirectly through the Transfer Agent. A meeting shall be held at a time and place determined by the General Partner on a date not less than 10 days nor more than 60 days after the time notice of the meeting is given as provided in Section 16.1. Limited Partners shall not vote on matters that would cause the Limited Partners to be deemed to be taking part in the management and control of the business and affairs of the Partnership so as to jeopardize the Limited Partners' limited liability under the Delaware Act or the law of any other state in which the Partnership is qualified to do business.

*Section 13.5 Notice of a Meeting.* Notice of a meeting called pursuant to Section 13.4 shall be given to the Record Holders of the class or classes of Units for which a meeting is proposed in writing by mail or other means of written communication in accordance with Section 16.1. The notice shall be deemed to have been given at the time when deposited in the mail or sent by other means of written communication.

*Section 13.6 Record Date.* For purposes of determining the Limited Partners entitled to notice of or to vote at a meeting of the Limited Partners or to give approvals without a meeting as provided in Section 13.11 the General Partner may set a Record Date, which shall not be less than 10 nor more than 60 days before (a) the date of the meeting (unless such requirement conflicts with any rule, regulation, guideline or requirement of any National Securities Exchange on which the Units are listed or admitted to trading or U.S. federal securities laws, in which case the rule, regulation, guideline or requirement of such National Securities Exchange or U.S. federal securities laws shall govern) or (b) in the event that approvals are sought without a meeting, the date by which Limited Partners are requested in writing by the General Partner to give such approvals. If the General Partner does not set a Record Date, then (a) the Record Date for determining the Limited Partners entitled to notice of or to vote at a meeting of the Limited Partners shall be the close of business on the day next preceding the day on which notice is given, and (b) the Record Date for determining the Limited Partners entitled to give approvals without a meeting shall be the date the first written approval is deposited with the Partnership in care of the General Partner in accordance with Section 13.11.

*Section 13.7 Adjournment.* When a meeting is adjourned to another time or place, notice need not be given of the adjourned meeting and a new Record Date need not be fixed, if the time and place thereof are announced at the meeting at which the adjournment is taken, unless such adjournment shall be for more than 45 days. At the adjourned meeting, the Partnership may transact any business which might have been transacted at the original meeting. If the adjournment is for more than 45 days or if a

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new Record Date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given in accordance with this Article XIII.

*Section 13.8 Waiver of Notice; Approval of Meeting; Approval of Minutes.* The transactions of any meeting of Limited Partners, however called and noticed, and whenever held, shall be as valid as if it had occurred at a meeting duly held after regular call and notice, if a quorum is present either in person or by proxy. Attendance of a Limited Partner at a meeting shall constitute a waiver of notice of the meeting, except when the Limited Partner attends the meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened; and except that attendance at a meeting is not a waiver of any right to disapprove the consideration of matters required to be included in the notice of the meeting, but not so included, if the disapproval is expressly made at the meeting.

*Section 13.9 Quorum and Voting.* The holders of a majority of the Outstanding Units of the class or classes for which a meeting has been called (including Outstanding Units deemed owned by the General Partner) represented in person or by proxy shall constitute a quorum at a meeting of Limited Partners of such class or classes unless any such action by the Limited Partners requires approval by holders of a greater percentage of such Units, in which case the quorum shall be such greater percentage. At any meeting of the Limited Partners duly called and held in accordance with this Agreement at which a quorum is present, the act of Limited Partners holding Outstanding Units that in the aggregate represent a majority of the Outstanding Units entitled to vote and be present in person or by proxy at such meeting shall be deemed to constitute the act of all Limited Partners, unless a greater or different percentage is required with respect to such action under the provisions of this Agreement, in which case the act of the Limited Partners holding Outstanding Units that in the aggregate represent at least such greater or different percentage shall be required. The Limited Partners present at a duly called or held meeting at which a quorum is present may continue to transact business until adjournment, notwithstanding the withdrawal of enough Limited Partners to leave less than a quorum, if any action taken (other than adjournment) is approved by the required percentage of Outstanding Units specified in this Agreement (including Outstanding Units deemed owned by the General Partner). In the absence of a quorum any meeting of Limited Partners may be adjourned from time to time by the affirmative vote of holders of at least a majority of the Outstanding Units entitled to vote at such meeting (including Outstanding Units deemed owned by the General Partner) represented either in person or by proxy, but no other business may be transacted, except as provided in Section 13.7.

*Section 13.10 Conduct of a Meeting.* The General Partner shall have full power and authority concerning the manner of conducting any meeting of the Limited Partners or solicitation of approvals in writing, including the determination of Persons entitled to vote, the existence of a quorum, the satisfaction of the requirements of Section 13.4, the conduct of voting, the validity and effect of any proxies and the determination of any controversies, votes or challenges arising in connection with or during the meeting or voting. The General Partner shall designate a Person to serve as chairman of any meeting and shall further designate a Person to take the minutes of any meeting. All minutes shall be kept with the records of the Partnership maintained by the General Partner. The General Partner may make such other regulations consistent with applicable law and this Agreement as it may deem advisable concerning the conduct of any meeting of the Limited Partners or solicitation of approvals in writing, including regulations in regard to the appointment of proxies, the appointment and duties of inspectors of votes and approvals, the submission and examination of proxies and other evidence of the right to vote, and the revocation of approvals in writing.

*Section 13.11 Action Without a Meeting.* If authorized by the General Partner, any action that may be taken at a meeting of the Limited Partners may be taken without a meeting without a vote and without prior notice, if an approval in writing setting forth the action so taken is signed by Limited Partners owning not less than the minimum percentage of the Outstanding Units (including Outstanding Units deemed owned by the General Partner) that would be necessary to authorize or take such action at a meeting at which all the Limited Partners were present and voted (unless such provision

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conflicts with any rule, regulation, guideline or requirement of any National Securities Exchange on which the Units are listed or admitted to trading, in which case the rule, regulation, guideline or requirement of such National Securities Exchange shall govern). Prompt notice of the taking of action without a meeting shall be given to the Limited Partners who have not approved in writing. The General Partner may specify that any written ballot, if any, submitted to Limited Partners for the purpose of taking any action without a meeting shall be returned to the Partnership within the time period, which shall be not less than 20 days, specified by the General Partner. If a ballot returned to the Partnership does not vote all of the Units held by the Limited Partners, the Partnership shall be deemed to have failed to receive a ballot for the Units that were not voted. If approval of the taking of any action by the Limited Partners is solicited by any Person other than by or on behalf of the General Partner, the written approvals shall have no force and effect unless and until (a) they are deposited with the Partnership in care of the General Partner, (b) approvals sufficient to take the action proposed are dated as of a date not more than 90 days prior to the date such sufficient approvals are deposited with the Partnership and (c) an Opinion of Counsel is delivered to the General Partner to the effect that the exercise of such right and the action proposed to be taken with respect to any particular matter (i) will not cause the Limited Partners to be deemed to be taking part in the management and control of the business and affairs of the Partnership so as to jeopardize the Limited Partners' limited liability, and (ii) is otherwise permissible under the state statutes then governing the rights, duties and liabilities of the Partnership and the Partners. Nothing contained in this Section 13.11 shall be deemed to require the General Partner to solicit all Limited Partners in connection with a matter approved by the holders of the requisite percentage of Units acting by written consent without a meeting.

*Section 13.12 Right to Vote and Related Matters.*

- (a) Only those Record Holders of the Outstanding Units on the Record Date set pursuant to Section 13.6 (and also subject to the limitations contained in the definition of "**Outstanding**") shall be entitled to notice of, and to vote at, a meeting of Limited Partners or to act with respect to matters as to which the holders of the Outstanding Units have the right to vote or to act. All references in this Agreement to votes of, or other acts that may be taken by, the Outstanding Units shall be deemed to be references to the votes or acts of the Record Holders of such Outstanding Units.
- (b) With respect to Units that are held for a Person's account by another Person (such as a broker, dealer, bank, trust company or clearing corporation, or an agent of any of the foregoing), in whose name such Units are registered, such other Person shall, in exercising the voting rights in respect of such Units on any matter, and unless the arrangement between such Persons provides otherwise, vote such Units in favor of, and at the direction of, the Person who is the beneficial owner, and the Partnership shall be entitled to assume it is so acting without further inquiry. The provisions of this Section 13.12(b) (as well as all other provisions of this Agreement) are subject to the provisions of Section 4.3.

## ARTICLE XIV

### MERGER, CONSOLIDATION OR CONVERSION

*Section 14.1 Authority.* The Partnership may merge or consolidate with or into one or more corporations, limited liability companies, statutory trusts or associations, real estate investment trusts, common law trusts or unincorporated businesses, including a partnership (whether general or limited (including a limited liability partnership)) or convert into any such entity, whether such entity is formed under the laws of the State of Delaware or any other state of the United States of America, pursuant to a written plan of merger or consolidation ("**Merger Agreement**") or a written plan of conversion ("**Plan of Conversion**"), as the case may be, in accordance with this Article XIV.



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*Section 14.2 Procedure for Merger, Consolidation or Conversion.*

- (a) Merger, consolidation or conversion of the Partnership pursuant to this Article XIV requires the prior consent of the General Partner, provided, however, that, to the fullest extent permitted by law, the General Partner shall have no duty or obligation to consent to any merger, consolidation or conversion of the Partnership and may decline to do so free of any fiduciary duty or obligation whatsoever to the Partnership, any Limited Partner and, in declining to consent to a merger, consolidation or conversion, shall not be required to act in good faith or pursuant to any other standard imposed by this Agreement, any other agreement contemplated hereby or under the Delaware Act or any other law, rule or regulation or at equity.
- (b) If the General Partner shall determine to consent to the merger or consolidation, the General Partner shall approve the Merger Agreement, which shall set forth:
  - (i) the name and jurisdiction of formation or organization of each of the business entities proposing to merge or consolidate;
  - (ii) the name and jurisdiction of formation or organization of the business entity that is to survive the proposed merger or consolidation (the "**Surviving Business Entity**");
  - (iii) the terms and conditions of the proposed merger or consolidation;
  - (iv) the manner and basis of exchanging or converting the equity interests of each constituent business entity for, or into, cash, property or interests, rights, securities or obligations of the Surviving Business Entity; and (i) if any interests, securities or rights of any constituent business entity are not to be exchanged or converted solely for, or into, cash, property or interests, rights, securities or obligations of the Surviving Business Entity, then the cash, property or interests, rights, securities or obligations of any general or limited partnership, corporation, trust, limited liability company, unincorporated business or other entity (other than the Surviving Business Entity) which the holders of such interests, securities or rights are to receive in exchange for, or upon conversion of their interests, securities or rights, and (ii) in the case of equity interests represented by certificates, upon the surrender of such certificates, which cash, property or interests, rights, securities or obligations of the Surviving Business Entity or any general or limited partnership, corporation, trust, limited liability company, unincorporated business or other entity (other than the Surviving Business Entity), or evidences thereof, are to be delivered;
  - (v) a statement of any changes in the constituent documents or the adoption of new constituent documents (the articles or certificate of incorporation, articles of trust, declaration of trust, certificate or agreement of limited partnership, certificate of formation or limited liability company agreement or other similar charter or governing document) of the Surviving Business Entity to be effected by such merger or consolidation;
  - (vi) the effective time of the merger, which may be the date of the filing of the certificate of merger pursuant to Section 14.4 or a later date specified in or determinable in accordance with the Merger Agreement (provided, that if the effective time of the merger is to be later than the date of the filing of such certificate of merger, the effective time shall be fixed at a date or time certain and stated in the certificate of merger); and
  - (vii) such other provisions with respect to the proposed merger or consolidation that the General Partner determines to be necessary or appropriate.
- (c) If the General Partner shall determine to consent to the conversion, the General Partner shall approve the Plan of Conversion, which shall set forth:
  - (i) the name of the converting entity and the converted entity;



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- (ii) a statement that the Partnership is continuing its existence in the organizational form of the converted entity;
- (iii) a statement as to the type of entity that the converted entity is to be and the state or country under the laws of which the converted entity is to be incorporated, formed or organized;
- (iv) the manner and basis of exchanging or converting the equity securities of each constituent business entity for, or into, cash, property or interests, rights, securities or obligations of the converted entity or another entity, or for the cancellation of such equity securities;
- (v) in an attachment or exhibit, the Certificate of Limited Partnership of the Partnership; and
- (vi) in an attachment or exhibit, the certificate of limited partnership, articles of incorporation, or other organizational documents of the converted entity;
- (vii) the effective time of the conversion, which may be the date of the filing of the articles of conversion or a later date specified in or determinable in accordance with the Plan of Conversion (provided, that if the effective time of the conversion is to be later than the date of the filing of such articles of conversion, the effective time shall be fixed at a date or time certain and stated in such articles of conversion); and
- (viii) such other provisions with respect to the proposed conversion that the General Partner determines to be necessary or appropriate.

*Section 14.3 Approval by Limited Partners.*

- (a) Except as provided in Section 14.3(d), the General Partner, upon its approval of the Merger Agreement or the Plan of Conversion, as the case may be, shall direct that the Merger Agreement or the Plan of Conversion and the merger, consolidation or conversion contemplated thereby, as applicable, be submitted to a vote of Limited Partners, whether at a special meeting or by written consent, in either case in accordance with the requirements of Article XIII. A copy or a summary of the Merger Agreement or the Plan of Conversion, as the case may be, shall be included in or enclosed with the notice of a special meeting or the written consent.
- (b) Except as provided in Section 14.3(d) and Section 14.3(e), the Merger Agreement or Plan of Conversion, as the case may be, shall be approved upon receiving the affirmative vote or consent of the holders of a Unit Majority unless the Merger Agreement or Plan of Conversion, as the case may be, contains any provision that, if contained in an amendment to this Agreement, the provisions of this Agreement or the Delaware Act would require for its approval the vote or consent of a greater percentage of the Outstanding Units or of any class of Limited Partners, in which case such greater percentage vote or consent shall be required for approval of the Merger Agreement or the Plan of Conversion, as the case may be.
- (c) Except as provided in Section 14.3(d) and Section 14.3(e), after such approval by vote or consent of the Limited Partners, and at any time prior to the filing of the certificate of merger or certificate of conversion pursuant to Section 14.4, the merger, consolidation or conversion may be abandoned pursuant to provisions therefor, if any, set forth in the Merger Agreement or Plan of Conversion, as the case may be.
- (d) Notwithstanding anything else contained in this Article XIV or in this Agreement, the General Partner is permitted, without Limited Partner approval, to convert the Partnership or any Group Member into a new limited liability entity, to merge the Partnership or any Group Member into, or convey all of the Partnership's assets to, another limited liability entity that



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shall be newly formed and shall have no assets, liabilities or operations at the time of such conversion, merger or conveyance other than those it receives from the Partnership or other Group Member if (i) the General Partner has received an Opinion of Counsel that the conversion, merger or conveyance, as the case may be, would not result in the loss of the limited liability under the Delaware Act of any Limited Partner or cause the Partnership or any Group Member to be treated as an association taxable as a corporation or otherwise to be taxed as an entity for federal income tax purposes (to the extent not already treated as such), (ii) the sole purpose of such conversion, merger, or conveyance is to effect a mere change in the legal form of the Partnership into another limited liability entity and (iii) the governing instruments of the new entity provide the Limited Partners and the General Partner with substantially the same rights and obligations as are herein contained.

(e)

Additionally, notwithstanding anything else contained in this Article XIV or in this Agreement, the General Partner is permitted, without Limited Partner approval, to merge or consolidate the Partnership with or into another entity if (A) the General Partner has received an Opinion of Counsel that the merger or consolidation, as the case may be, would not result in the loss of the limited liability under the Delaware Act of any Limited Partner or cause the Partnership or any Group Member to be treated as an association taxable as a corporation or otherwise to be taxed as an entity for federal income tax purposes (to the extent not already treated as such), (B) the merger or consolidation would not result in an amendment to this Agreement, other than any amendments that could be adopted pursuant to Section 13.1, (C) the Partnership is the Surviving Business Entity in such merger or consolidation, (D) each Unit outstanding immediately prior to the effective date of the merger or consolidation is to be an identical Unit of the Partnership after the effective date of the merger or consolidation, and (E) the number of Partnership Interests to be issued by the Partnership in such merger or consolidation does not exceed 20% of the Partnership Interests (other than Incentive Distribution Rights) Outstanding immediately prior to the effective date of such merger or consolidation.

(f)

Pursuant to Section 17-211(g) of the Delaware Act, an agreement of merger or consolidation approved in accordance with this Article XIV may (a) effect any amendment to this Agreement or (b) effect the adoption of a new partnership agreement for the Partnership if it is the Surviving Business Entity. Any such amendment or adoption made pursuant to this Section 14.3 shall be effective at the effective time or date of the merger or consolidation.

*Section 14.4 Certificate of Merger.* Upon the required approval by the General Partner and the Unitholders of a Merger Agreement or the Plan of Conversion, as the case may be, a certificate of merger or certificate of conversion, as applicable, shall be executed and filed with the Secretary of State of the State of Delaware in conformity with the requirements of the Delaware Act.

*Section 14.5 Effect of Merger, Consolidation or Conversion.*

(a)

At the effective time of the certificate of merger:

(i)

all of the rights, privileges and powers of each of the business entities that has merged or consolidated, and all property, real, personal and mixed, and all debts due to any of those business entities and all other things and causes of action belonging to each of those business entities, shall be vested in the Surviving Business Entity and after the merger or consolidation shall be the property of the Surviving Business Entity to the extent they were of each constituent business entity;

(ii)

the title to any real property vested by deed or otherwise in any of those constituent business entities shall not revert and is not in any way impaired because of the merger or consolidation;

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- (iii) all rights of creditors and all liens on or security interests in property of any of those constituent business entities shall be preserved unimpaired; and
  - (iv) all debts, liabilities and duties of those constituent business entities shall attach to the Surviving Business Entity and may be enforced against it to the same extent as if the debts, liabilities and duties had been incurred or contracted by it.
- (b) At the effective time of the certificate of conversion, for all purposes of the laws of the State of Delaware:
- (i) the Partnership shall continue to exist, without interruption, but in the organizational form of the converted entity rather than in its prior organizational form;
  - (ii) all rights, title, and interests to all real estate and other property owned by the Partnership shall remain vested in the converted entity in its new organizational form without reversion or impairment, without further act or deed, and without any transfer or assignment having occurred, but subject to any existing liens or other encumbrances thereon;
  - (iii) all liabilities and obligations of the Partnership shall continue to be liabilities and obligations of the converted entity in its new organizational form without impairment or diminution by reason of the conversion;
  - (iv) all rights of creditors or other parties with respect to or against the prior interest holders or other owners of the Partnership in their capacities as such in existence as of the effective time of the conversion will continue in existence as to those liabilities and obligations and are enforceable against the converted entity by such creditors and obligees to the same extent as if the liabilities and obligations had originally been incurred or contracted by the converted entity;
  - (v) the Partnership Interests that are to be converted into partnership interests, shares, evidences of ownership, or other rights or securities in the converted entity or cash as provided in the Plan of Conversion shall be so converted, and Partners shall be entitled only to the rights provided in the Plan of Conversion.

**ARTICLE XV**

**RIGHT TO ACQUIRE LIMITED PARTNER INTERESTS**

*Section 15.1 Right to Acquire Limited Partner Interests.*

- (a) Notwithstanding any other provision of this Agreement, if at any time after the Closing Date the General Partner and its Affiliates hold more than 80% of the total Limited Partner Interests of any class then Outstanding, the General Partner shall then have the right, which right it may assign and transfer in whole or in part to the Partnership or any Affiliate of the General Partner, exercisable in its sole discretion, to purchase for cash all, but not less than all, of such Limited Partner Interests of such class then Outstanding held by Persons other than the General Partner and its Affiliates, at the greater of (x) the Current Market Price as of the date three days prior to the date that the notice described in Section 15.1(b) is mailed and (y) the highest price paid by the General Partner or any of its Affiliates for any such Limited Partner Interest of such class purchased during the 90-day period preceding the date that the notice described in Section 15.1(b) is mailed.
- (b) If the General Partner, any Affiliate of the General Partner or the Partnership elects to exercise the right to purchase Limited Partner Interests granted pursuant to Section 15.1(a), the General Partner shall deliver to the Transfer Agent notice of such election to purchase (the "**Notice of Election to Purchase**") and shall cause the Transfer Agent to mail a copy of such Notice

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such class (as of a Record Date selected by the General Partner) at least 10, but not more than 60, days prior to the Purchase Date. Such Notice of Election to Purchase shall also be published for a period of at least three consecutive days in at least two daily newspapers of general circulation printed in the English language and published in the Borough of Manhattan, New York. The Notice of Election to Purchase shall specify the Purchase Date and the price (determined in accordance with Section 15.1(a)) at which Limited Partner Interests will be purchased and state that the General Partner, its Affiliate or the Partnership, as the case may be, elects to purchase such Limited Partner Interests, upon surrender of Certificates representing such Limited Partner Interests in the case of Limited Partner Interests evidenced by Certificates, in exchange for payment, at such office or offices of the Transfer Agent as the Transfer Agent may specify, or as may be required by any National Securities Exchange on which such Limited Partner Interests are listed or admitted to trading. Any such Notice of Election to Purchase mailed to a Record Holder of Limited Partner Interests at his address as reflected in the records of the Transfer Agent shall be conclusively presumed to have been given regardless of whether the owner receives such notice. On or prior to the Purchase Date, the General Partner, its Affiliate or the Partnership, as the case may be, shall deposit with the Transfer Agent cash in an amount sufficient to pay the aggregate purchase price of all of such Limited Partner Interests to be purchased in accordance with this Section 15.1. If the Notice of Election to Purchase shall have been duly given as aforesaid at least 10 days prior to the Purchase Date, and if on or prior to the Purchase Date the deposit described in the preceding sentence has been made for the benefit of the holders of Limited Partner Interests subject to purchase as provided herein, then from and after the Purchase Date, notwithstanding that any Certificate shall not have been surrendered for purchase, all rights of the holders of such Limited Partner Interests (including any rights pursuant to Article III, Article IV, Article V, Article VI, and Article XII) shall thereupon cease, except the right to receive the purchase price (determined in accordance with Section 15.1(a)) for Limited Partner Interests therefor, without interest, upon surrender to the Transfer Agent of the Certificates representing such Limited Partner Interests in the case of Limited Partner Interests evidenced by Certificates, and such Limited Partner Interests shall thereupon be deemed to be transferred to the General Partner, its Affiliate or the Partnership, as the case may be, on the record books of the Transfer Agent and the Partnership, and the General Partner or any Affiliate of the General Partner, or the Partnership, as the case may be, shall be deemed to be the owner of all such Limited Partner Interests from and after the Purchase Date and shall have all rights as the owner of such Limited Partner Interests (including all rights as owner of such Limited Partner Interests pursuant to Article III, Article IV, Article V, Article VI and Article XII).

(c)

In the case of Limited Partner Interests evidenced by Certificates, at any time from and after the Purchase Date, a holder of an Outstanding Limited Partner Interest subject to purchase as provided in this Section 15.1 may surrender his Certificate evidencing such Limited Partner Interest to the Transfer Agent in exchange for payment of the amount described in Section 15.1(a), therefor, without interest thereon.

## ARTICLE XVI

### GENERAL PROVISIONS

#### Section 16.1 *Addresses and Notices; Written Communications.*

(a)

Any notice, demand, request, report or proxy materials required or permitted to be given or made to a Partner under this Agreement shall be in writing and shall be deemed given or made when delivered in person or when sent by first class United States mail or by other means of written communication to the Partner at the address described below. Any notice, payment or report to be given or made to a Partner hereunder shall be deemed conclusively



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to have been given or made, and the obligation to give such notice or report or to make such payment shall be deemed conclusively to have been fully satisfied, upon sending of such notice, payment or report to the Record Holder of such Partnership Interests at his address as shown on the records of the Transfer Agent or as otherwise shown on the records of the Partnership, regardless of any claim of any Person who may have an interest in such Partnership Interests by reason of any assignment or otherwise. Notwithstanding the foregoing, if (i) a Partner shall consent to receiving notices, demands, requests, reports or proxy materials via electronic mail or by the Internet or (ii) the rules of the Commission shall permit any report or proxy materials to be delivered electronically or made available via the Internet, any such notice, demand, request, report or proxy materials shall be deemed given or made when delivered or made available via such mode of delivery. An affidavit or certificate of making of any notice, payment or report in accordance with the provisions of this Section 16.1 executed by the General Partner, the Transfer Agent or the mailing organization shall be prima facie evidence of the giving or making of such notice, payment or report. If any notice, payment or report given or made in accordance with the provisions of this Section 16.1 is returned marked to indicate that such notice, payment or report was unable to be delivered, such notice, payment or report and, in the case of notices, payments or reports returned by the United States Postal Service (or other physical mail delivery mail service outside the United States of America), any subsequent notices, payments and reports shall be deemed to have been duly given or made without further mailing (until such time as such Record Holder or another Person notifies the Transfer Agent or the Partnership of a change in his address) or other delivery if they are available for the Partner at the principal office of the Partnership for a period of one year from the date of the giving or making of such notice, payment or report to the other Partners. Any notice to the Partnership shall be deemed given if received by the General Partner at the principal office of the Partnership designated pursuant to Section 2.3. The General Partner may rely and shall be protected in relying on any notice or other document from a Partner or other Person if believed by it to be genuine.

(b)

The terms "in writing", "written communications," "written notice" and words of similar import shall be deemed satisfied under this Agreement by use of e-mail and other forms of electronic communication subject to the provisions of Section 16.1(a).

*Section 16.2 Further Action.* The parties shall execute and deliver all documents, provide all information and take or refrain from taking action as may be necessary or appropriate to achieve the purposes of this Agreement.

*Section 16.3 Binding Effect.* This Agreement shall be binding upon and inure to the benefit of the parties hereto and their heirs, executors, administrators, successors, legal representatives and permitted assigns.

*Section 16.4 Integration.* Except for agreements with Affiliates of the General Partner, this Agreement constitutes the entire agreement among the parties hereto pertaining to the subject matter hereof and supersedes all prior agreements and understandings pertaining thereto.

*Section 16.5 Creditors.* None of the provisions of this Agreement shall be for the benefit of, or shall be enforceable by, any creditor of the Partnership.

*Section 16.6 Waiver.* No failure by any party to insist upon the strict performance of any covenant, duty, agreement or condition of this Agreement or to exercise any right or remedy consequent upon a breach thereof shall constitute waiver of any such breach of any other covenant, duty, agreement or condition.

*Section 16.7 Third-Party Beneficiaries.* Each Partner agrees that any Indemnitee shall be entitled to assert rights and remedies hereunder as a third-party beneficiary hereto with respect to those provisions of this Agreement affording a right, benefit or privilege to such Indemnitee.

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*Section 16.8 Counterparts.* This Agreement may be executed in counterparts, all of which together shall constitute an agreement binding on all the parties hereto, notwithstanding that all such parties are not signatories to the original or the same counterpart. Each party shall become bound by this Agreement (a) immediately upon affixing its signature hereto or, (b) in the case of the General Partner and the holders of Limited Partner Interests which are outstanding immediately prior to the closing of the Initial Public Offering, immediately prior to the signing of the Underwriting Agreement in connection with the Initial Public Offering; *provided that*, if the Closing Date does not occur as contemplated by the Underwriting Agreement, this Agreement will be of no force or effect and the terms and provisions of the First Amended and Restated Partnership Agreement will govern the rights and obligations of such persons as if this Agreement had not been executed, or (c) in the case of a Person acquiring a Limited Partner Interest, pursuant to Section 10.1(a) immediately upon the acquisition of such Limited Partner Interests, without execution hereof.

*Section 16.9 Applicable Law; Forum, Venue and Jurisdiction.*

- (a) This Agreement shall be construed in accordance with and governed by the laws of the State of Delaware, without regard to the principles of conflicts of law.
- (b) Each of the Partners and each Person holding any beneficial interest in the Partnership (whether through a broker, dealer, bank, trust company or clearing corporation or an agent of any of the foregoing or otherwise):
  - (i) irrevocably agrees that any claims, suits, actions or proceedings (A) arising out of or relating in any way to this Agreement (including any claims, suits or actions to interpret, apply or enforce the provisions of this Agreement or the duties, obligations or liabilities among Partners or of Partners to the Partnership, or the rights or powers of, or restrictions on, the Partners or the Partnership), (B) brought in a derivative manner on behalf of the Partnership, (C) asserting a claim of breach of a fiduciary duty owed by any director, officer, or other employee of the Partnership or the General Partner, or owed by the General Partner, to the Partnership or the Partners, (D) asserting a claim arising pursuant to any provision of the Delaware Act or (E) asserting a claim governed by the internal affairs doctrine shall be exclusively brought in the Court of Chancery of the State of Delaware, in each case regardless of whether such claims, suits, actions or proceedings sound in contract, tort, fraud or otherwise, are based on common law, statutory, equitable, legal or other grounds, or are derivative or direct claims;
  - (ii) irrevocably submits to the exclusive jurisdiction of the Court of Chancery of the State of Delaware in connection with any such claim, suit, action or proceeding;
  - (iii) agrees not to, and waives any right to, assert in any such claim, suit, action or proceeding that (A) it is not personally subject to the jurisdiction of the Court of Chancery of the State of Delaware or of any other court to which proceedings in the Court of Chancery of the State of Delaware may be appealed, (B) such claim, suit, action or proceeding is brought in an inconvenient forum, or (C) the venue of such claim, suit, action or proceeding is improper;
  - (iv) expressly waives any requirement for the posting of a bond by a party bringing such claim, suit, action or proceeding; and
  - (v) consents to process being served in any such claim, suit, action or proceeding by mailing, certified mail, return receipt requested, a copy thereof to such party at the address in effect for notices hereunder, and agrees that such services shall constitute good and sufficient service of process and notice thereof; provided, nothing in clause (v) hereof shall affect or limit any right to serve process in any other manner permitted by law.

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*Section 16.10 Invalidity of Provisions.* If any provision or part of a provision of this Agreement is or becomes for any reason, invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions and part thereof contained herein shall not be affected thereby and this Agreement shall, to the fullest extent permitted by law, be reformed and construed as if such invalid, illegal or unenforceable provision, or part of a provision, had never been contained herein, and such provision or part reformed so that it would be valid, legal and enforceable to the maximum extent possible.

*Section 16.11 Consent of Partners.* Each Partner hereby expressly consents and agrees that, whenever in this Agreement it is specified that an action may be taken upon the affirmative vote or consent of less than all of the Partners, such action may be so taken upon the concurrence of less than all of the Partners and each Partner shall be bound by the results of such action.

*Section 16.12 Facsimile Signatures.* The use of facsimile signatures affixed in the name and on behalf of the Transfer Agent of the Partnership on Certificates representing Units is expressly permitted by this Agreement.

[Signature Pages Follow]

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IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first written above.

**GENERAL PARTNER:**

**NGL ENERGY HOLDINGS LLC**

By: \_\_\_\_\_

Name:

Title:

**INITIAL LIMITED PARTNERS:**

**HICKS OILS & HICKSGAS, INCORPORATED**

By: \_\_\_\_\_

Name: Todd M. Coady

Title: President

**KRIM2010, LLC**

By: \_\_\_\_\_

Name: H. Michael Krimbill

Title: Manager

SIGNATURE PAGE

NGL ENERGY PARTNERS LP

SECOND AMENDED AND RESTATED AGREEMENT OF LIMITED PARTNERSHIP

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**INFRASTRUCTURE CAPITAL MANAGEMENT, LLC**

By: \_\_\_\_\_

Name: Jay Hatfield  
Title: Manager

**ATKINSON INVESTORS, LLC**

By: \_\_\_\_\_

Name: Bradley K. Atkinson  
Title: Manager

**NGL HOLDINGS, INC.**

By: \_\_\_\_\_

Name:  
Title:

\_\_\_\_\_  
Stanley A. Bugh

\_\_\_\_\_  
Robert R. Foster

\_\_\_\_\_  
Brian K. Pauling

\_\_\_\_\_  
Stanley D. Perry

\_\_\_\_\_  
Stephen D. Tuttle

\_\_\_\_\_  
Craig S. Jones

\_\_\_\_\_  
Daniel Post

\_\_\_\_\_  
Mark McGinty

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Sharra Straight

---

David R. Eastin

SIGNATURE PAGE

NGL ENERGY PARTNERS LP

SECOND AMENDED AND RESTATED AGREEMENT OF LIMITED PARTNERSHIP

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**EXHIBIT A**  
**to the Second Amended and Restated**  
**Agreement of Limited Partnership of**  
**NGL Energy Partners LP**

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**Certificate Evidencing Common Units  
Representing Limited Partner Interests in  
NGL Energy Partners LP**

No. \_\_\_\_\_ Common Units

In accordance with Section 4.1 of the Second Amended and Restated Agreement of Limited Partnership of NGL Energy Partners LP, as amended, supplemented or restated from time to time (the "**Partnership Agreement**"), NGL Energy Partners LP, a Delaware limited partnership (the "**Partnership**"), hereby certifies that (the "**Holder**") is the registered owner of \_\_\_\_\_ Common Units representing limited partner interests in the Partnership (the "**Common Units**") transferable on the books of the Partnership, in person or by duly authorized attorney, upon surrender of this Certificate properly endorsed. The rights, preferences and limitations of the Common Units are set forth in, and this Certificate and the Common Units represented hereby are issued and shall in all respects be subject to the terms and provisions of, the Partnership Agreement. Copies of the Partnership Agreement are on file at, and will be furnished without charge on delivery of written request to the Partnership at, the principal office of the Partnership located at 6120 S. Yale, Suite 805, Tulsa, OK 74136. Capitalized terms used herein but not defined shall have the meanings given them in the Partnership Agreement.

THE HOLDER OF THIS SECURITY ACKNOWLEDGES FOR THE BENEFIT OF NGL ENERGY PARTNERS LP THAT THIS SECURITY MAY NOT BE SOLD, OFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED IF SUCH TRANSFER WOULD (A) VIOLATE THE THEN APPLICABLE FEDERAL OR STATE SECURITIES LAWS OR RULES AND REGULATIONS OF THE SECURITIES AND EXCHANGE COMMISSION, ANY STATE SECURITIES COMMISSION OR ANY OTHER GOVERNMENTAL AUTHORITY WITH JURISDICTION OVER SUCH TRANSFER, (B) TERMINATE THE EXISTENCE OR QUALIFICATION OF NGL PARTNERS LP. UNDER THE LAWS OF THE STATE OF DELAWARE, OR (C) CAUSE NGL ENERGY PARTNERS LP TO BE TREATED AS AN ASSOCIATION TAXABLE AS A CORPORATION OR OTHERWISE TO BE TAXED AS AN ENTITY FOR FEDERAL INCOME TAX PURPOSES (TO THE EXTENT NOT ALREADY SO TREATED OR TAXED). NGL ENERGY HOLDINGS LLC, THE GENERAL PARTNER OF NGL ENERGY PARTNERS LP, MAY IMPOSE ADDITIONAL RESTRICTIONS ON THE TRANSFER OF THIS SECURITY IF IT RECEIVES AN OPINION OF COUNSEL THAT SUCH RESTRICTIONS ARE NECESSARY TO (A) AVOID A SIGNIFICANT RISK OF NGL ENERGY PARTNERS LP BECOMING TAXABLE AS A CORPORATION OR OTHERWISE BECOMING TAXABLE AS AN ENTITY FOR FEDERAL INCOME TAX PURPOSES OR (B) IN THE CASE OF LIMITED PARTNER INTERESTS, TO PRESERVE THE UNIFORMITY THEROF (OR ANY CLASS OR CLASSES OF LIMITED PARTNER INTERESTS). THE RESTRICTIONS SET FORTH ABOVE SHALL NOT PRECLUDE THE SETTLEMENT OF ANY TRANSACTIONS INVOLVING THIS SECURITY ENTERED INTO THROUGH THE FACILITIES OF ANY NATIONAL SECURITIES EXCHANGE ON WHICH THIS SECURITY IS LISTED OR ADMITTED TO TRADING.

The Holder, by accepting this Certificate, is deemed to have (i) requested admission as, and agreed to become, a Limited Partner and to have agreed to comply with and be bound by and to have executed the Partnership Agreement, (ii) represented and warranted that the Holder has all right, power and authority and, if an individual, the capacity necessary to enter into the Partnership Agreement and (iii) made the waivers and given the consents and approvals contained in the Partnership Agreement.



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This Certificate shall not be valid for any purpose unless it has been countersigned and registered by the Transfer Agent and Registrar. This Certificate shall be governed by and construed in accordance with the laws of the State of Delaware.

Dated: NGL Energy Partners LP

Countersigned and Registered by: By: NGL Energy Holdings LLC

[ ] By:

As Transfer Agent and Registrar Name:

By:

Secretary

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[Reverse of Certificate]

**ABBREVIATIONS**

The following abbreviations, when used in the inscription on the face of this Certificate, shall be construed as follows according to applicable laws or regulations:

TEN COM - as tenants in common	UNIF GIFT/TRANSFERS MIN ACT
TEN ENT - as tenants by the entireties	_____ Custodian _____
JT TEN - as joint tenants with right of survivorship	(Cust) _____ (Minor)
and not as tenants in common	Under Uniform Gifts/Transfers to CD Minors Act (State)

Additional abbreviations, though not in the above list, may also be used.

**ASSIGNMENT OF COMMON UNITS OF  
NGL ENERGY PARTNERS LP**

FOR VALUE RECEIVED, \_\_\_\_\_ hereby assigns, conveys, sells and transfers unto

(Please print or typewrite name and address of assignee)

(Please insert Social Security or other identifying number of assignee)

Common Units representing limited partner interests evidenced by this Certificate, subject to the Partnership Agreement, and does hereby irrevocably constitute and appoint as its attorney-in-fact with full power of substitution to transfer the same on the books of NGL Energy Partners LP

Dated: \_\_\_\_\_

NOTE: The signature to any endorsement hereon must correspond with the name as written upon the face of this Certificate in every particular, without alteration, enlargement or change.

THE SIGNATURE(S) MUST BE GUARANTEED BY AN  
ELIGIBLE GUARANTOR INSTITUTION (BANKS,  
STOCKBROKERS, SAVINGS AND LOAN ASSOCIATIONS  
AND CREDIT UNIONS WITH MEMBERSHIP IN AN  
APPROVED SIGNATURE GUARANTEE MEDALLION  
PROGRAM), PURSUANT TO S.E.C. RULE 17Ad-15

\_\_\_\_\_  
(Signature)

\_\_\_\_\_  
(Signature)

\_\_\_\_\_  
No transfer of the Common Units evidenced hereby will be registered on the books of the Partnership, unless the Certificate evidencing the Common Units to be transferred is surrendered for registration or transfer.

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**3,500,000 Common Units  
Representing Limited Partner Interests**

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**PROSPECTUS**

**, 2011**

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**Joint Book-Running Managers**

**Wells Fargo Securities**

**RBC Capital Markets**

**Lead Managers**

**SunTrust Robinson Humphrey**

**BMO Capital Markets**

**Co-Managers**

**Baird**

**Janney Montgomery Scott**

**BOSC, Inc.**

Through and including \_\_\_\_\_, 2011 (25 days after the commencement of this offering), all dealers that effect transactions in these common units, whether or not participating in this offering, may be required to deliver a prospectus. This delivery is in addition to a dealer's obligation to deliver a prospectus when acting as an underwriter and with respect to their unsold allotments or subscriptions.

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**Part II**  
**Information required in the registration statement**

**ITEM 13. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION.**

Set forth below are the expenses (other than underwriting discounts and commissions) expected to be incurred in connection with the issuance and distribution of the securities registered hereby. With the exception of the SEC registration fee and the FINRA filing fee, the amounts set forth below are estimates.

Underwriter structuring fee	\$ 350,000
SEC registration fee	9,813
FINRA filing fee	8,953
Printing and engraving expenses	300,000
Legal counsel fees and expenses	1,100,000
Accounting fees and expenses	1,300,000
Transfer agent and registrar fees	30,000
NYSE listing fee	125,000
Miscellaneous	226,234

Total \$ 3,450,000

**ITEM 14. INDEMNIFICATION OF DIRECTORS AND OFFICERS.*****NGL Energy Partners LP***

Subject to any terms, conditions or restrictions set forth in the partnership agreement, Section 17-108 of the Delaware LP Act empowers a Delaware limited partnership to indemnify and hold harmless any partner or other person from and against any and all claims and demands whatsoever. The section of the prospectus entitled "The Partnership Agreement Indemnification" discloses that we will generally indemnify officers, directors and affiliates of our general partner to the fullest extent permitted by the law against all losses, claims, damages or similar events and is incorporated herein by reference.

Under our partnership agreement, in most circumstances, we will indemnify the following persons, to the fullest extent permitted by law, from and against all losses, claims, damages or similar events:

our general partner;

any departing general partner;

any person who is or was an affiliate of our general partner or any departing general partner;

any person who is or was a manager, managing member, director, officer, employee, agent, fiduciary or trustee of our partnership, our subsidiaries, our general partner, any departing general partner or any of their affiliates;

any person who is or was serving as a manager, managing member, director, officer, employee, agent, fiduciary or trustee of another person owing a fiduciary duty to us or our subsidiaries;

any person who controls our general partner or any departing general partner; and

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any person designated by our general partner.

Any indemnification under these provisions will only be out of our assets. Unless our general partner otherwise agrees, it will not be personally liable for, or have any obligation to contribute or lend funds or assets to us to enable us to effectuate, indemnification. We may purchase insurance against liabilities asserted against and expenses incurred by persons for our activities, regardless of whether we would have the power to indemnify the person against liabilities under our partnership agreement.

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The underwriting agreement to be entered into in connection with the sale of the securities offered pursuant to this registration statement, the form of which has been filed as an exhibit to this registration statement, provides for indemnification of our general partner, our general partner's directors and certain of our general partner's officers, and any person who controls our general partner, including indemnification for liabilities under the Securities Act.

***NGL Energy Holdings LLC***

Section 18-108 of the Delaware Limited Liability Company Act, or the Delaware LLC Act, provides that, subject to such standards and restrictions, if any, as are set forth in its limited liability company agreement, a Delaware limited liability company may, and shall have the power to, indemnify and hold harmless any member or manager or other person from and against any and all claims and demands whatsoever. The limited liability company agreement of NGL Energy Holdings LLC, our general partner, provides that our general partner shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that he or she is or was a director or officer of our general partner, or is or was serving at the request of our general partner as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise (an "indemnitee"), against expenses (including reasonable attorney's fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such indemnitee in connection with such action, suit or proceeding to the full extent permitted by the Delaware LLC Act, upon such determination having been made as to such indemnitee's good faith and conduct as is required by the Delaware LLC Act. The limited liability company agreement of our general partner also provides that expenses incurred in defending a civil or criminal action, suit or proceeding shall be paid by our general partner in advance of the final disposition of such action, suit or proceeding to the extent, if any, authorized by our general partner's sole member in accordance with the provisions of the Delaware LLC Act, upon receipt of an undertaking by or on behalf of the indemnitee to repay such amount unless it shall ultimately be determined that indemnitee is entitled to be indemnified by our general partner. Officers, directors and affiliates of our general partner are also indemnified by us, as described above.

Our general partner will purchase insurance covering its officers and directors against liabilities asserted and expenses incurred in connection with their activities as officers and directors of our general partner or any of its direct or indirect subsidiaries.

**ITEM 15. RECENT SALES OF UNREGISTERED SECURITIES.**

On October 14, 2010 and in connection with its formation, NGL Energy Partners LP issued securities in the following transactions, in each case, pursuant to an exemption from registration under Section 4(2) of the Securities Act of 1933, as amended: (i) the issuance of a 0.1% general partner interest to Silverthorne Energy Holdings LLC for \$1, (ii) the issuance of an aggregate 1,272,288 common units and a cash payment in the aggregate amount of approximately \$40,000,000 to the members of NGL Supply, LLC and the assumption of certain existing indebtedness of NGL Supply, all in exchange for 100% of the membership interests in NGL Supply, LLC, (iii) the issuance of 247,069 common units to Krim2010, LLC for \$4,941,391, (iv) the issuance of 137,261 common units to Infrastructure Capital Management, LLC for \$2,745,217, (v) the issuance of 164,713 common units to Atkinson Investors, LLC for \$3,294,261 and (vi) the issuance of 1,116,300 common units and a cash payment of approximately \$1,628,000 to Hicks Oils & Hicksgas, Incorporated, or HOH, and the assumption of certain existing indebtedness of HOH and its affiliates, all in exchange for 100% of the membership interests in Hicksgas LLC.

There have been no other sales of unregistered securities within the past three years.

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**ITEM 16. EXHIBITS.**

The following documents are filed as exhibits to this registration statement:

<b>Exhibit Number</b>	<b>Description</b>
1.1*	Form of Underwriting Agreement
2.1**	Contribution, Purchase and Sale Agreement dated as of September 30, 2010 by and among Hicks Oils & Hicksgas, Incorporated, Hicksgas Gifford, Inc., Gifford Holdings, Inc., NGL Supply, Inc., NGL Holdings, Inc., the other stockholders of NGL Supply, Inc., Krim2010, LLC, Infrastructure Capital Management, LLC, Atkinson Investors, LLC, Silverthorne Energy Holdings LLC and Silverthorne Energy Partners LP (filed with Amendment No. 2 to this Registration Statement on April 15, 2011)
3.1**	Certificate of Limited Partnership of NGL Energy Partners LP (filed with Amendment No. 2 to this Registration Statement on April 15, 2011)
3.2**	Certificate of Amendment to Certificate of Limited Partnership of NGL Energy Partners LP (filed with Amendment No. 2 to this Registration Statement on April 15, 2011)
3.3	Form of Second Amended and Restated Agreement of Limited Partnership of NGL Energy Partners LP (contained in Appendix A to the prospectus included in this Registration Statement)
3.4**	Certificate of Formation of NGL Energy Holdings LLC (filed with Amendment No. 2 to this Registration Statement on April 15, 2011)
3.5**	Certificate of Amendment to Certificate of Formation of NGL Energy Holdings LLC (filed with Amendment No. 2 to this Registration Statement on April 15, 2011)
3.6*	First Amended and Restated Limited Liability Company Agreement of NGL Energy Holdings LLC
5.1*	Opinion of Akin Gump Strauss Hauer & Feld LLP as to the legality of the securities being registered
8.1*	Opinion of Akin Gump Strauss Hauer & Feld LLP relating to tax matters
10.1**	Credit Agreement dated October 14, 2010 by and among Silverthorne Operating LLC, NGL Supply, LLC, Hicksgas, LLC, NGL Supply Retail, LLC, NGL Supply Wholesale, LLC, and NGL Supply Terminal Company, LLC, as joint and several borrowers, Silverthorne Energy Partners LP and certain subsidiaries of Silverthorne Energy Partners LP as guarantors, each of the financial institutions party thereto, Wells Fargo Bank, National Association, as agent for the financial institutions, and Wells Fargo Securities LLC, BNP Paribas Securities Corp. and Harris N.A. as joint lead arrangers and bookrunners (filed with Amendment No. 1 to this Registration Statement on March 22, 2011)
10.2**	Waiver and First Amendment to Credit Agreement and Pledge and Security Agreement dated January 27, 2011 by and among Silverthorne Energy Partners LP, Silverthorne Operating LLC and certain of its subsidiaries, Wells Fargo Bank, National Association, and the lenders party thereto (filed with Amendment No. 1 to this Registration Statement on March 22, 2011)
10.3**	Waiver and Second Amendment to Credit Agreement dated February 10, 2011 by and among NGL Energy Partners LP, Silverthorne Operating LLC and certain of its subsidiaries, Wells Fargo Bank, National Association, and the lenders party thereto (filed with Amendment No. 1 to this Registration Statement on March 22, 2011)

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Exhibit Number	Description
10.4**	Joinder and Third Amendment to Credit Agreement dated February 11, 2011 by and among NGL Energy Partners LP, Silverthorne Operating LLC and certain of its subsidiaries, Wells Fargo Bank, National Association, and the lenders party thereto (filed with Amendment No. 1 to this Registration Statement on March 22, 2011)
10.5*	Long Term Propane Supply Agreement by and among Phillips Petroleum Company, Phillips Pipe Line Company and NGL Supply, Inc. dated November 7, 2002
10.6*	First Amendment to Long Term Propane Supply Agreement dated November 22, 2002 by and among Phillips Petroleum Company, Phillips Pipe Line Company and NGL Supply, Inc.
10.7*	Second Amendment to Long Term Propane Supply Agreement dated July 1, 2006 by and among ConocoPhillips Company, ConocoPhillips Pipe Line Company and NGL Supply, Inc.
10.8*	Assignment dated July 30, 2007 among ConocoPhillips Company, ConocoPhillips Pipe Line Company, NGL Supply, Inc. and NGL Supply Wholesale, LLC
10.9*	Storage Space Agreement by and between Phillips Petroleum Company and NGL Supply, Inc. dated November 7, 2002
10.10*	NGL Energy Partners LP 2011 Long-Term Incentive Plan
10.11**	Letter Agreement among Silverthorne Energy Holdings LLC, Shawn W. Coady and Todd M. Coady dated October 14, 2010 (filed with Amendment No. 2 to this Registration Statement on April 15, 2011)
10.12*	Form of Registration Rights Agreement
10.13	Joinder and Fourth Amendment to Credit Agreement dated April 1, 2011 by and among NGL Energy Partners LP, Silverthorne Operating LLC and certain of its subsidiaries, Wells Fargo Bank, National Association, and the lenders party thereto
21.1	List of Subsidiaries of NGL Energy Partners LP
23.1	Consent of BDO USA, LLP
23.2	Consent of Grant Thornton LLP
23.3	Consent of Grant Thornton LLP
23.4*	Consent of Akin Gump Strauss Hauer & Feld LLP (contained in Exhibit 5.1)
23.5*	Consent of Akin Gump Strauss Hauer & Feld LLP (contained in Exhibit 8.1)
23.6	Consent of Director Nominee (Kneale)
24.1*	Powers of Attorney (included on the signature page to this Registration Statement filed on February 11, 2011)

\*  
To be filed by amendment

\*\*  
Previously filed

### **ITEM 17. UNDERTAKINGS.**



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The undersigned registrant hereby undertakes to provide to the underwriters at the closing specified in the underwriting agreement certificates in such denominations and registered in such names as required by the underwriters to permit prompt delivery to each purchaser.

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Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

The undersigned registrant hereby undertakes that:

- (1) For the purpose of determining liability under the Securities Act to any purchaser, each prospectus filed pursuant to Rule 424(b) as part of a registration statement relating to an offering, other than registration statements relying on Rule 430B or other than prospectuses filed in reliance on Rule 430A, shall be deemed to be part of and included in the registration statement as of the date it is first used after effectiveness. Provided, however, that no statement made in a registration statement or prospectus that is part of the registration statement or made in a document incorporated or deemed incorporated by reference into the registration statement or prospectus that is part of the registration statement will, as to a purchaser with a time of contract of sale prior to such first use, supersede or modify any statement that was made in the registration statement or prospectus that was part of the registration statement or made in any such document immediately prior to such date of first use.
- (2) For the purpose of determining liability of the registrant under the Securities Act to any purchaser in the initial distribution of the securities, the undersigned registrant undertakes that in a primary offering of securities of the undersigned registrant pursuant to this registration statement, regardless of the underwriting method used to sell the securities to the purchaser, if the securities are offered or sold to such purchaser by means of any of the following communications, the undersigned registrant will be a seller to the purchaser and will be considered to offer or sell such securities to such purchaser:
  - i. Any preliminary prospectus or prospectus of the undersigned registrant relating to the offering required to be filed pursuant to Rule 424;
  - ii. Any free writing prospectus relating to the offering prepared by or on behalf of the undersigned registrant or used or referred to by the undersigned registrant;
  - iii. The portion of any other free writing prospectus relating to the offering containing material information about the undersigned registrant or its securities provided by or on behalf of the undersigned registrant; and
  - iv. Any other communication that is an offer in the offering made by the undersigned registrant to the purchaser.
- (3) For purposes of determining any liability under the Securities Act, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.
- (4) For the purpose of determining any liability under the Securities Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial *bona fide* offering thereof.

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**SIGNATURES**

Pursuant to the requirements of the Securities Act of 1933, as amended, the registrant has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Tulsa, State of Oklahoma, on April 28, 2011.

NGL ENERGY PARTNERS LP

By: NGL Energy Holdings LLC,  
its general partner

By: /s/ H. MICHAEL KRIMBILL

H. Michael Krimbill  
Chief Executive Officer

Pursuant to the requirements of the Securities Act of 1933, as amended, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

Signature	Title	Date
/s/ H. MICHAEL KRIMBILL		
H. Michael Krimbill	Chief Executive Officer and Director (Principal Executive Officer)	April 28, 2011
/s/ CRAIG S. JONES		
Craig S. Jones	Chief Financial Officer (Principal Financial Officer)	April 28, 2011
/s/ SHARRA STRAIGHT		
Sharra Straight	Vice President and Comptroller (Principal Accounting Officer)	April 28, 2011
*		
Shawn W. Coady	Director	April 28, 2011
*		
William A. Zartler	Director	April 28, 2011

\*By: /s/ CRAIG S. JONES

Craig S. Jones, Attorney-in-Fact  
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5.1*	Opinion of Akin Gump Strauss Hauer & Feld LLP as to the legality of the securities being registered
8.1*	Opinion of Akin Gump Strauss Hauer & Feld LLP relating to tax matters
10.1**	Credit Agreement dated October 14, 2010 by and among Silverthorne Operating LLC, NGL Supply, LLC, Hicksgas, LLC, NGL Supply Retail, LLC, NGL Supply Wholesale, LLC, and NGL Supply Terminal Company, LLC, as joint and several borrowers, Silverthorne Energy Partners LP and certain subsidiaries of Silverthorne Energy Partners LP as guarantors, each of the financial institutions party thereto, Wells Fargo Bank, National Association, as agent for the financial institutions, and Wells Fargo Securities LLC, BNP Paribas Securities Corp. and Harris N.A. as joint lead arrangers and bookrunners (filed with Amendment No. 1 to this Registration Statement on March 22, 2011)
10.2**	Waiver and First Amendment to Credit Agreement and Pledge and Security Agreement dated January 27, 2011 by and among Silverthorne Energy Partners LP, Silverthorne Operating LLC and certain of its subsidiaries, Wells Fargo Bank, National Association, and the lenders party thereto (filed with Amendment No. 1 to this Registration Statement on March 22, 2011)
10.3**	Waiver and Second Amendment to Credit Agreement dated February 10, 2011 by and among NGL Energy Partners LP, Silverthorne Operating LLC and certain of its subsidiaries, Wells Fargo Bank, National Association, and the lenders party thereto (filed with Amendment No. 1 to this Registration Statement on March 22, 2011)
10.4**	Joinder and Third Amendment to Credit Agreement dated February 11, 2011 by and among NGL Energy Partners LP, Silverthorne Operating LLC and certain of its subsidiaries, Wells Fargo Bank, National Association, and the lenders party thereto (filed with Amendment No. 1 to this Registration Statement on March 22, 2011)

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<b>Exhibit Number</b>	<b>Description</b>
10.5*	Long Term Propane Supply Agreement by and among Phillips Petroleum Company, Phillips Pipe Line Company and NGL Supply, Inc. dated November 7, 2002
10.6*	First Amendment to Long Term Propane Supply Agreement dated November 22, 2002 by and among Phillips Petroleum Company, Phillips Pipe Line Company and NGL Supply, Inc.
10.7*	Second Amendment to Long Term Propane Supply Agreement dated July 1, 2006 by and among ConocoPhillips Company, ConocoPhillips Pipe Line Company and NGL Supply, Inc.
10.8*	Assignment dated July 30, 2007 among ConocoPhillips Company, ConocoPhillips Pipe Line Company, NGL Supply, Inc. and NGL Supply Wholesale, LLC
10.9*	Storage Space Agreement by and between Phillips Petroleum Company and NGL Supply, Inc. dated November 7, 2002
10.10*	NGL Energy Partners LP 2011 Long-Term Incentive Plan
10.11**	Letter Agreement among Silverthorne Energy Holdings LLC, Shawn W. Coady and Todd M. Coady dated October 14, 2010 (filed with Amendment No. 2 to this Registration Statement on April 15, 2011)
10.12*	Form of Registration Rights Agreement
10.13	Joinder and Fourth Amendment to Credit Agreement dated April 1, 2011 by and among NGL Energy Partners LP, Silverthorne Operating LLC and certain of its subsidiaries, Wells Fargo Bank, National Association, and the lenders party thereto
21.1	List of Subsidiaries of NGL Energy Partners LP
23.1	Consent of BDO USA, LLP
23.2	Consent of Grant Thornton LLP
23.3	Consent of Grant Thornton LLP
23.4*	Consent of Akin Gump Strauss Hauer & Feld LLP (contained in Exhibit 5.1)
23.5*	Consent of Akin Gump Strauss Hauer & Feld LLP (contained in Exhibit 8.1)
23.6	Consent of Director Nominee (Kneale)
24.1*	Powers of Attorney (included on the signature page to this Registration Statement filed on February 11, 2011)

\*

To be filed by amendment

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Previously filed