

DCP Midstream Partners, LP  
Form 10-Q  
May 10, 2011  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended March 31, 2011

or

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

For the transition period from            to

Commission File Number: 001-32678

**DCP MIDSTREAM PARTNERS, LP**

(Exact name of registrant as specified in its charter)

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<b>Delaware</b> (State or other jurisdiction of incorporation or organization)	<b>03-0567133</b> (I.R.S. Employer Identification No.)
<b>370 17th Street, Suite 2775</b> <b>Denver, Colorado</b> (Address of principal executive offices)	<b>80202</b> (Zip Code)
<b>Registrant's telephone number, including area code: (303) 633-2900</b>	

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

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

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of May 6, 2011, there were outstanding 44,083,418 common units representing limited partner interests.

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**DCP MIDSTREAM PARTNERS, LP**

**FORM 10-Q FOR THE QUARTER ENDED MARCH 31, 2011**

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**GLOSSARY OF TERMS**

The following is a list of certain industry terms used throughout this report:

Bbl	barrel
Bbls/d	barrels per day
Btu	British thermal unit, a measurement of energy
BBtu/d	one billion Btus per day
Bcf	one billion cubic feet
Bcf/d	one billion cubic feet per day
Frac spread	price differences, measured in energy units, between equivalent amounts of natural gas and natural gas liquids
Fractionation	the process by which natural gas liquids are separated into individual components
MBbls	one thousand barrels
MBbls/d	one thousand barrels per day
MMBbls	one million barrels
MMBtu	one million British thermal units, a measurement of energy
MMBtu/d	one million Btus per day
MMcf	one million cubic feet
MMcf/d	one million cubic feet per day
NGLs	natural gas liquids
Throughput	the volume of product transported or passing through a pipeline or other facility

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**CAUTIONARY STATEMENT ABOUT FORWARD-LOOKING STATEMENTS**

Our reports, filings and other public announcements may from time to time contain statements that do not directly or exclusively relate to historical facts. Such statements are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. You can typically identify forward-looking statements by the use of forward-looking words, such as may, could, project, believe, anticipate, expect, estimate, potential, plan, forecast and other similar words.

All statements that are not statements of historical facts, including statements regarding our future financial position, business strategy, budgets, projected costs and plans and objectives of management for future operations, are forward-looking statements.

These forward-looking statements reflect our intentions, plans, expectations, assumptions and beliefs about future events and are subject to risks, uncertainties and other factors, many of which are outside our control. Important factors that could cause actual results to differ materially from the expectations expressed or implied in the forward-looking statements include known and unknown risks. Known risks and uncertainties include, but are not limited to, the risks set forth in Item 1A. Risk Factors in this Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K for the year ended December 31, 2010, as well as the following risks and uncertainties:

the extent of changes in commodity prices, our ability to effectively limit a portion of the adverse impact of potential changes in prices through derivative financial instruments, and the potential impact of price and producers' access to capital on natural gas drilling, demand for our services, and the volume of NGLs and condensate extracted;

general economic, market and business conditions;

the level and success of natural gas drilling around our assets, the level and quality of gas production volumes around our assets and our ability to connect supplies to our gathering and processing systems in light of competition;

our ability to grow through acquisitions, contributions from affiliates, or organic growth projects, and the successful integration and future performance of such assets;

our ability to access the debt and equity markets and the resulting cost of capital, which will depend on general market conditions, our financial and operating results, inflation rates, interest rates and our ability to effectively limit a portion of the adverse effects of potential changes in interest rates by entering into derivative financial instruments, our ability to comply with the covenants to our credit agreement and our debt securities, as well as our ability to maintain our credit ratings;

our ability to purchase propane from our principal suppliers and make associated profitable sales transactions for our wholesale propane logistics business;

our ability to construct facilities in a timely fashion, which is partially dependent on obtaining required construction, environmental and other permits issued by federal, state and municipal governments, or agencies thereof, the availability of specialized contractors and laborers, and the price of and demand for supplies;

the creditworthiness of counterparties to our transactions;

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weather and other natural phenomena, including their potential impact on demand for the commodities we sell and the operation of company-owned and third-party-owned infrastructure;

new, additions to and changes in laws and regulations, particularly with regard to taxes, safety and protection of the environment, including climate change legislation, or the increased regulation of our industry;

our ability to obtain insurance on commercially reasonable terms, if at all, as well as the adequacy of insurance to cover our losses;

industry changes, including the impact of consolidations, increased delivery of liquefied natural gas to the United States, alternative energy sources, technological advances and changes in competition; and

the amount of collateral we may be required to post from time to time in our transactions including changes resulting from the Dodd-Frank Wall Street Reform and Consumer Protection Act.

In light of these risks, uncertainties and assumptions, the events described in the forward-looking statements might not occur or might occur to a different extent or at a different time than we have described. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

**Table of Contents****PART I. FINANCIAL INFORMATION****Item 1. Financial Statements**

**DCP MIDSTREAM PARTNERS, LP**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
**(Unaudited)**

	March 31, 2011	December 31, 2010
	(Millions)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 5.0	\$ 6.7
Accounts receivable:		
Trade, net of allowance for doubtful accounts of \$0.5 million for each period	81.1	89.3
Affiliates	69.4	61.7
Inventories	42.1	64.1
Unrealized gains on derivative instruments	0.9	1.9
Assets held for sale		6.2
Other	1.4	2.1
<b>Total current assets</b>	<b>199.9</b>	<b>232.0</b>
Property, plant and equipment, net	1,120.6	1,097.1
Goodwill	146.8	139.3
Intangible assets, net	117.8	119.3
Investments in unconsolidated affiliates	216.0	216.9
Unrealized gains on derivative instruments	3.1	1.4
Other long-term assets	7.1	7.2
<b>Total assets</b>	<b>\$ 1,811.3</b>	<b>\$ 1,813.2</b>
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Accounts payable:		
Trade	\$ 89.1	\$ 99.1
Affiliates	31.1	37.6
Unrealized losses on derivative instruments	54.3	43.0
Taxes payable	39.5	
Other	25.8	31.5
<b>Total current liabilities</b>	<b>239.8</b>	<b>211.2</b>
Long-term debt	675.8	647.8
Unrealized losses on derivative instruments	69.2	50.3
Other long-term liabilities	15.7	53.1
<b>Total liabilities</b>	<b>1,000.5</b>	<b>962.4</b>
Commitments and contingent liabilities		

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Equity:		
Predecessor equity		112.6
Common unitholders (44,083,418 and 40,478,383 units issued and outstanding, respectively)	619.0	552.2
General partner	(6.0)	(6.4)
Accumulated other comprehensive loss	(23.3)	(27.7)
Total partners' equity	589.7	630.7
Noncontrolling interests	221.1	220.1
Total equity	810.8	850.8
Total liabilities and equity	\$ 1,811.3	\$ 1,813.2

See accompanying notes to condensed consolidated financial statements.



**Table of Contents****DCP MIDSTREAM PARTNERS, LP****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(Unaudited)**

	<b>Three Months Ended March 31,</b>	
	<b>2011</b>	<b>2010</b>
	<b>(Millions, except per unit amounts)</b>	
<b>Operating revenues:</b>		
Sales of natural gas, propane, NGLs and condensate	\$ 297.5	\$ 235.4
Sales of natural gas, propane, NGLs and condensate to affiliates	132.2	135.0
Transportation, processing and other	30.5	21.6
Transportation, processing and other to affiliates	5.1	5.7
(Losses) gains from commodity derivative activity, net	(38.9)	6.0
Losses from commodity derivative activity, net affiliates	(1.3)	
<b>Total operating revenues</b>	<b>425.1</b>	<b>403.7</b>
<b>Operating costs and expenses:</b>		
Purchases of natural gas, propane and NGLs	222.3	191.5
Purchases of natural gas, propane and NGLs from affiliates	152.7	141.3
Operating and maintenance expense	24.1	19.0
Depreciation and amortization expense	19.9	17.8
General and administrative expense	4.2	3.7
General and administrative expense affiliates	4.8	4.9
Other income	(0.1)	
<b>Total operating costs and expenses</b>	<b>427.9</b>	<b>378.2</b>
<b>Operating (loss) income</b>	<b>(2.8)</b>	<b>25.5</b>
<b>Interest expense</b>	<b>(8.0)</b>	<b>(7.2)</b>
<b>Earnings from unconsolidated affiliates</b>	<b>8.6</b>	<b>14.4</b>
<b>(Loss) income before income taxes</b>	<b>(2.2)</b>	<b>32.7</b>
<b>Income tax expense</b>	<b>(0.2)</b>	<b>(0.3)</b>
<b>Net (loss) income</b>	<b>(2.4)</b>	<b>32.4</b>
<b>Net income attributable to noncontrolling interests</b>	<b>(3.5)</b>	<b>(0.1)</b>
<b>Net (loss) income attributable to partners</b>	<b>(5.9)</b>	<b>32.3</b>
<b>Net loss attributable to predecessor operations</b>		<b>(6.5)</b>
<b>General partner's interest in net income</b>	<b>(5.5)</b>	<b>(3.8)</b>
<b>Net (loss) income allocable to limited partners</b>	<b>\$ (11.4)</b>	<b>\$ 22.0</b>
<b>Net (loss) income per limited partner unit - basic</b>	<b>\$ (0.28)</b>	<b>\$ 0.64</b>
<b>Net (loss) income per limited partner unit - diluted</b>	<b>\$ (0.28)</b>	<b>\$ 0.64</b>
<b>Weighted-average limited partner units outstanding - basic</b>	<b>41.3</b>	<b>34.6</b>

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Weighted-average limited partner units outstanding - diluted	41.3	34.6
See accompanying notes to condensed consolidated financial statements.		

**Table of Contents****DCP MIDSTREAM PARTNERS, LP****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****(Unaudited)**

	<b>Three Months Ended March 31, 2011      2010 (Millions)</b>	
Net (loss) income	\$ (2.4)	\$ 32.4
Other comprehensive income (loss):		
Reclassification of cash flow hedge losses into earnings	5.3	6.0
Net unrealized losses on cash flow hedges	(0.9)	(7.6)
Total other comprehensive income (loss)	4.4	(1.6)
Total comprehensive income	2.0	30.8
Total comprehensive income attributable to noncontrolling interests	(3.5)	(0.1)
Total comprehensive income attributable to partners	\$ (1.5)	\$ 30.7

See accompanying notes to condensed consolidated financial statements.

**Table of Contents****DCP MIDSTREAM PARTNERS, LP****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)**

	<b>Three Months Ended March 31, 2011                      2010 (Millions)</b>	
<b>OPERATING ACTIVITIES:</b>		
Net (loss) income	\$ (2.4)	\$ 32.4
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization expense	19.9	17.8
Earnings from unconsolidated affiliates	(8.6)	(14.4)
Distributions from unconsolidated affiliates	11.3	12.5
Other, net	2.3	0.5
Change in operating assets and liabilities, which provided (used) cash net of effects of acquisitions:		
Accounts receivable	0.5	31.9
Inventories	22.0	(8.9)
Net unrealized losses (gains) on derivative instruments	33.9	(7.8)
Accounts payable	(15.1)	(9.3)
Accrued interest	2.1	
Other current assets and liabilities	0.1	(0.9)
Other long-term assets and liabilities	(2.0)	(0.1)
 Net cash provided by operating activities	 64.0	 53.7
<b>INVESTING ACTIVITIES:</b>		
Capital expenditures	(13.7)	(12.2)
Acquisitions, net of cash acquired	(37.1)	(22.0)
Acquisition of unconsolidated affiliate	(114.3)	
Investments in unconsolidated affiliates	(0.1)	(0.7)
Proceeds from sale of assets	0.2	0.2
Proceeds from sales of available-for-sale securities		10.1
 Net cash used in investing activities	 (165.0)	 (24.6)
<b>FINANCING ACTIVITIES:</b>		
Proceeds from debt	547.0	116.6
Payments of debt	(519.0)	(114.6)
Payment of deferred financing costs	(0.1)	
Proceeds from issuance of common units, net of offering costs	139.7	
Excess purchase price over acquired assets	(35.7)	
Net change in advances to predecessor from DCP Midstream, LLC		(2.7)
Distributions to unitholders and general partner	(30.1)	(24.6)
Distributions to noncontrolling interests	(5.4)	(3.7)
Contributions from noncontrolling interests	2.9	3.9
Purchase of additional interest in a subsidiary		(3.5)
 Net cash provided by (used in) financing activities	 99.3	 (28.6)
 Net change in cash and cash equivalents	 (1.7)	 0.5
Cash and cash equivalents, beginning of period	6.7	2.1

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Cash and cash equivalents, end of period	\$ 5.0	\$ 2.6
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See accompanying notes to condensed consolidated financial statements.

**Table of Contents****DCP MIDSTREAM PARTNERS, LP****CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY****(Unaudited)**

	Partner's Equity			Accumulated Other Comprehensive (Loss) Income	Noncontrolling Interests	Total Equity
	Predecessor Equity	Common Unitholders	General Partner (Millions)			
<b>Balance, January 1, 2011</b>	\$ 112.6	\$ 552.2	\$ (6.4)	\$ (27.7)	\$ 220.1	\$ 850.8
Net change in parent advances	1.7					1.7
Acquisition of Southeast Texas	(114.3)					(114.3)
Excess purchase price over acquired assets		(35.7)				(35.7)
Issuance of 3,596,636 common units		139.6				139.6
Equity-based compensation		1.9				1.9
Distributions to DCP Midstream, LLC		(2.6)				(2.6)
Distributions to unitholders and general partner		(25.0)	(5.1)			(30.1)
Distributions to noncontrolling interests					(5.4)	(5.4)
Contributions from noncontrolling interests					2.9	2.9
<b>Comprehensive income (loss):</b>						
Net income		(11.4)	5.5		3.5	(2.4)
Reclassification of cash flow hedges into earnings				5.3		5.3
Net unrealized losses on cash flow hedges				(0.9)		(0.9)
<b>Total comprehensive (loss) income</b>		<b>(11.4)</b>	<b>5.5</b>	<b>4.4</b>	<b>3.5</b>	<b>2.0</b>
<b>Balance, March 31, 2011</b>	\$	\$ 619.0	\$ (6.0)	\$ (23.3)	\$ 221.1	\$ 810.8

	Partner's Equity			Accumulated Other Comprehensive (Loss) Income	Noncontrolling Interests	Total Equity
	Predecessor Equity (Millions)	Common Unitholders	General Partner			
<b>Balance, January 1, 2010</b>	\$ 70.8	\$ 415.5	\$ (5.9)	\$ (31.9)	\$ 227.7	\$ 676.2
Net change in parent advances	(2.7)					(2.7)
Purchase of additional interest in a subsidiary		1.0			(5.5)	(4.5)
Distributions		(20.8)	(3.8)		(3.7)	(28.3)
Contributions					3.9	3.9
<b>Comprehensive income (loss):</b>						
Net income attributable to predecessor operations	6.5					6.5
Net income		21.9	3.9		0.1	25.9
Reclassification of cash flow hedge losses into earnings				6.0		6.0
Net unrealized losses on cash flow hedges				(7.6)		(7.6)
<b>Total comprehensive income (loss)</b>	<b>6.5</b>	<b>21.9</b>	<b>3.9</b>	<b>(1.6)</b>	<b>0.1</b>	<b>30.8</b>

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<b>Balance, March 31, 2010</b>	\$ 74.6	\$ 417.6	\$ (5.8)	\$ (33.5)	\$ 222.5	\$ 675.4
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See accompanying notes to condensed consolidated financial statements.

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**DCP MIDSTREAM PARTNERS, LP**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**1. Description of Business and Basis of Presentation**

DCP Midstream Partners, LP, with its consolidated subsidiaries, or us, we or our, is engaged in the business of gathering, compressing, treating, processing, transporting, storing and selling natural gas; and producing, transporting, storing and selling NGLs and condensate.

We are a Delaware limited partnership that was formed in August 2005. We completed our initial public offering on December 7, 2005. Our partnership includes: our Northern Louisiana system; our Southern Oklahoma system; our 40% limited liability company interest in Discovery Producer Services LLC, or Discovery; our Wyoming system; a 75% interest in Collbran Valley Gas Gathering, LLC, or Collbran or our Colorado system (of which 5% was acquired in February 2010); our 50.1% interest in our DCP East Texas Holdings, LLC, or our East Texas system; our Michigan system; our 33.33% interest in our DCP Southeast Texas Holdings, GP, or our Southeast Texas system acquired in January 2011; our wholesale propane logistics business (which includes Atlantic Energy acquired in July 2010); and our NGL logistics business (which includes Marysville Hydrocarbons Holdings, Inc, or Marysville, acquired in December 2010, the Wattenberg pipeline acquired in January 2010 and our 100% interest in the Black Lake Pipeline Company, or Black Lake, 55% of which was acquired in July 2010, comprised of: (1) a 5% interest acquired from DCP Midstream, LLC, in a transaction among entities under common control, and (2) an additional 50% interest acquired from an affiliate of BP PLC).

Our operations and activities are managed by our general partner, DCP Midstream GP, LP, which in turn is managed by its general partner, DCP Midstream GP, LLC, which we refer to as the General Partner, and is wholly-owned by DCP Midstream, LLC. DCP Midstream, LLC and its subsidiaries and affiliates, collectively referred to as DCP Midstream, LLC, is owned 50% by Spectra Energy Corp, or Spectra Energy, and 50% by ConocoPhillips. DCP Midstream, LLC directs our business operations through its ownership and control of the General Partner. DCP Midstream, LLC and its affiliates employees provide administrative support to us and operate most of our assets. DCP Midstream, LLC owns approximately 27% of us.

The condensed consolidated financial statements include the accounts of the Partnership and all majority-owned subsidiaries where we have the ability to exercise control and undivided interests in jointly owned assets. Investments in greater than 20% owned affiliates that are not variable interest entities and where we do not have the ability to exercise control, and investments in less than 20% owned affiliates where we have the ability to exercise significant influence, are accounted for using the equity method. Intercompany balances and transactions have been eliminated.

On January 1, 2011, we acquired a 33.33% interest in Southeast Texas for \$150.0 million, in a transaction among entities under common control. Transfers of net assets between entities under common control are accounted for as if the transfer occurred at the beginning of the period, and prior years are retrospectively adjusted to furnish comparative information similar to the pooling method. Accordingly, our condensed consolidated financial statements have been adjusted to include the historical results of our equity interest in Southeast Texas for all periods presented. We refer to our 33.33% interest in Southeast Texas, prior to our acquisition from DCP Midstream, LLC in January 2011, as our predecessor. We recognize transfers of net assets between entities under common control at DCP Midstream, LLC's basis in the net assets contributed. The amount of the purchase price in excess of DCP Midstream, LLC's basis in the net assets is recognized as a reduction to partners equity. The financial statements of our predecessor have been prepared from the separate records maintained by DCP Midstream, LLC and may not necessarily be indicative of the conditions that would have existed or the results of operations if our predecessor had been operated as an unaffiliated entity.

The results of operations for acquisitions accounted for as business combinations have been included in the condensed consolidated financial statements since their respective acquisition dates and we have retrospectively adjusted the December 31, 2010 condensed consolidated balance sheet for changes in our preliminary purchase price allocation for our December 31, 2010 acquisition of Marysville.

The condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, or GAAP. Conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and notes. Although these estimates are based on management's best available knowledge of current and expected future events, actual results could differ from those estimates. All intercompany balances and transactions have been eliminated. Transactions between us and other DCP Midstream, LLC operations have been identified in the condensed consolidated financial statements as transactions between affiliates.





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The accompanying unaudited condensed consolidated financial statements in this Quarterly Report on Form 10-Q have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission, or SEC. Accordingly, these condensed consolidated financial statements reflect all normal recurring adjustments that are, in the opinion of management, necessary to present fairly the financial position and results of operations for the respective interim periods. Certain information and notes normally included in our annual financial statements have been condensed or omitted from these interim financial statements pursuant to such rules and regulations. Results of operations for the three months ended March 31, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011. These condensed consolidated financial statements and other information included in this Quarterly Report on Form 10-Q should be read in conjunction with the consolidated financial statements and notes thereto included in our 2010 Form 10-K.

### **2. Recent Accounting Pronouncements**

***Financial Accounting Standards Board, or FASB, Accounting Standards Update, or ASU, 2010-29 Business Combinations (Topic 805): Disclosure of Supplementary Pro Forma Information for Business Combinations , or ASU 2010-29*** In December 2010, the FASB issued ASU 2010-29 which amended Accounting Standards Codification, or ASC, Topic 805 Business Combinations to specify that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination that occurred during the year had occurred as of the beginning of the comparable prior annual reporting period only. The ASU also expands the supplemental pro forma disclosures under Topic 805 to include a description of the nature and the amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. ASU 2010-29 is effective for business combinations for which the acquisition date is on or after January 1, 2011. The provisions of ASU 2010-29 impact disclosure only. We have not had any business combinations that fall under the guidance of ASU 2010-29 and consequently, there was no impact on our disclosures as a result of adoption.

*ASU 20*