

Atlas Resource Partners, L.P.
Form 10-Q
August 08, 2016

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 June 30, 2016

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: 001-35317

ATLAS RESOURCE PARTNERS, L.P.

(Exact name of registrant as specified in its charter)

Delaware 45-3591625
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

Park Place Corporate Center One

1000 Commerce Drive, Suite 400

Pittsburgh, Pennsylvania 15275

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(Address of principal executive office)

(Zip code)

Registrant's telephone number, including area code: (800) 251-0171

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 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 (Do not check if smaller reporting company) 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

The number of outstanding common limited partner units of the registrant on August 4, 2016 was 106,180,706.

ATLAS RESOURCE PARTNERS, L.P.

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ON FORM 10-Q

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Forward-Looking Statements

The matters discussed within this report include forward-looking statements. These statements may be identified by the use of forward-looking terminology such as “anticipate,” “believe,” “continue,” “could,” “estimate,” “expect,” “intend,” “might,” “plan,” “potential,” “predict,” “should,” or “will,” or the negative thereof or other variations thereon or comparable terminology. In particular, statements about our expectations, beliefs, plans, objectives, assumptions or future events or performance contained in this report are forward-looking statements. We have based these forward-looking statements on our current expectations, assumptions, estimates and projections. While we believe these expectations, assumptions, estimates and projections are reasonable, such forward-looking statements are only predictions and involve known and unknown risks and uncertainties, many of which are beyond our control. These and other important factors may cause our actual results, performance or achievements to differ materially from any future results, performance or achievements expressed or implied by these forward-looking statements. Some of the key factors that could cause actual results to differ from our expectations include:

- the potential adverse effects of the filings under Chapter 11 of the United States Bankruptcy Code (“Chapter 11”) and restructuring transactions on our operations, management and employees and the risks associated with operating our business during the restructuring process;
- the ability to consummate our pre-packaged plan of reorganization on the time frame or terms contemplated, or at all;
- the length of time that we will operate under Chapter 11 protection and the continued availability of operating capital during the pendency of the proceedings;
- risks and uncertainties associated with the Chapter 11 proceedings including our ability to achieve the anticipated benefits therefrom;
- risks associated with third party motions in the Chapter 11 proceedings, which may interfere with our ability to develop and consummate the Plan;
- the demand for natural gas, oil, NGLs and condensate;
- the price volatility of natural gas, oil, NGLs and condensate;
- changes in the differential between benchmark prices for oil and natural gas and wellhead prices that we receive;
- changes in the market price of our units;
- future financial and operating results;
 - our ability to meet our liquidity needs;
- restrictive covenants in the debt documents governing our indebtedness that may adversely affect operational flexibility;
- actions that we may take in connection with our liquidity needs, including the ability to service our debt, and ability to satisfy covenants in our debt documents;
- economic conditions and instability in the financial markets;
- effects of debt payment obligations on our distributable cash;
- resource potential;
- the impact of our securities being quoted on the OTC Pink Sheets rather than listed on the New York Stock Exchange;
 - effects of partial depletion or drainage by earlier offset drilling on our acreage;
- success in efficiently developing and exploiting our reserves and economically finding or acquiring additional recoverable reserves;
- the accuracy of estimated natural gas and oil reserves;
- the financial and accounting impact of hedging transactions;
- the ability to fulfill our substantial capital investment needs;
- expectations with regard to acquisition activity, or difficulties encountered in connection with acquisitions, dispositions or similar transactions;
-

the limited payment of distributions, or failure to declare a distribution, on outstanding common units or other equity securities;

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- any issuance of additional common units or other equity securities, and any resulting dilution or decline in the market price of any such securities;
- potential changes in tax laws which may impair the ability to obtain capital funds through investment partnerships;
- the ability to obtain adequate water to conduct drilling and production operations, and to dispose of the water used in and generated by these operations at a reasonable cost and within applicable environmental rules;
- the effects of unexpected operational events and drilling conditions, and other risks associated with drilling operations;
- impact fees and severance taxes;
- changes and potential changes in the regulatory and enforcement environment in the areas in which we conduct business;
- the effects of intense competition in the natural gas and oil industry;
- general market, labor and economic conditions and uncertainties;
- the ability to retain certain key customers;
- dependence on the gathering and transportation facilities of third parties;
- the availability of drilling rigs, equipment and crews;
- potential incurrence of significant costs and liabilities in the future resulting from a failure to comply with new or existing environmental regulations or an accidental release of hazardous substances into the environment;
- access to sufficient amounts of carbon dioxide for tertiary recovery operations;
- uncertainties with respect to the success of drilling wells at identified drilling locations;
- acquisitions may potentially prove to be worth less than we paid, or provide less than anticipated proved reserves;
- ability to identify all risks associated with the acquisition of oil and natural gas properties, or existing wells, and the sufficiency of indemnifications we receive from sellers to protect us from such risks;
- expirations of undeveloped leasehold acreage;
- uncertainty regarding leasing operating expenses, general and administrative expenses and funding and development costs;
- exposure to financial and other liabilities of the managing general partners of the investment partnerships;
 - the ability to comply with, and the potential costs of compliance with, new and existing federal, state, local and other laws and regulations applicable to our business and operations;
- restrictions on hydraulic fracturing;
- exposure to new and existing litigation;
- development of alternative energy resources; and
- the effects of a cyber event or terrorist attack.

Other factors that could cause actual results to differ from those implied by the forward-looking statements in this report are more fully described under “Item 1A: Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended December 31, 2015. Given these risks and uncertainties, you are cautioned not to place undue reliance on these forward-looking statements. The forward-looking statements included in this report are made only as of the date hereof. We do not undertake and specifically decline any obligation to update any such statements or to publicly announce the results of any revisions to any of these statements to reflect future events or developments.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ATLAS RESOURCE PARTNERS, L.P.

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands)

(Unaudited)

	June 30, 2016	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	\$24,258	\$1,353
Accounts receivable	62,555	63,367
Advances to affiliates	5,765	—
Current portion of derivative asset	99,654	159,460
Subscriptions receivable	—	19,877
Prepaid expenses and other	17,074	22,935
Current deferred financing costs	12,162	—
Total current assets	221,468	266,992
Property, plant and equipment, net	1,156,055	1,191,611
Goodwill and intangible assets, net	14,028	14,095
Long-term derivative asset	135,231	198,262
Other assets, net	13,604	28,989
Total assets	\$1,540,386	\$1,699,949
LIABILITIES AND PARTNERS' CAPITAL (DEFICIT)		
Current liabilities:		
Accounts payable	\$37,914	\$49,249
Advances from affiliates	—	9,924
Liabilities associated with drilling contracts	—	21,483
Current portion of derivative payable to Drilling Partnerships	956	2,574
Accrued well drilling and completion costs	2,182	26,914
Accrued interest	24,085	25,436
Distribution payable	—	4,334
Accrued liabilities	17,144	22,086
Current portion of long-term debt	1,553,277	—
Total current liabilities	1,635,558	162,000
Long-term debt, less current portion, net	—	1,503,427
Asset retirement obligations	129,678	113,740

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Other long-term liabilities	6,007	5,410
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Commitments and contingencies (Note 9)

Partners' Capital (Deficit):

General partner's interest	(33,929)	(31,156)
Preferred limited partners' interests	188,462	188,739
Class C common limited partner warrants	1,176	1,176
Common limited partners' interests	(396,871)	(262,762)
Accumulated other comprehensive income	10,305	19,375
Total partners' deficit	(230,857)	(84,628)
Total liabilities and partners' deficit	\$1,540,386	\$1,699,949

See accompanying notes to condensed consolidated financial statements.

ATLAS RESOURCE PARTNERS, L.P.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per unit data)

(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Revenues:				
Gas and oil production	\$51,397	\$97,260	\$99,889	\$201,509
Well construction and completion	(1,326)	16,956	774	40,611
Gathering and processing	1,600	2,177	3,095	4,361
Administration and oversight	495	547	950	1,806
Well services	4,190	6,102	8,622	12,726
Gain (loss) on mark-to-market derivatives	(73,264)	(26,944)	(27,144)	78,641
Other, net	84	27	198	60
Total revenues	(16,824)	96,125	86,384	339,714
Costs and expenses:				
Gas and oil production	30,852	43,135	66,694	88,633
Well construction and completion	(1,153)	14,745	673	35,315
Gathering and processing	2,191	2,516	4,470	4,933
Well services	1,474	2,139	3,652	4,337
General and administrative	23,761	13,287	40,838	30,422
Depreciation, depletion and amortization	29,008	42,494	59,053	85,485
Total costs and expenses	86,133	118,316	175,380	249,125
Operating income (loss)	(102,957)	(22,191)	(88,996)	90,589
Interest expense	(31,954)	(24,716)	(59,659)	(49,913)
Gain (loss) on asset sales and disposal	(502)	97	(493)	86
Gain on early extinguishment of debt	—	—	26,498	—
Other income (loss)	(6,156)	—	(6,156)	—
Net income (loss)	(141,569)	(46,810)	(128,806)	40,762
Preferred limited partner dividends	(365)	(4,234)	(4,013)	(7,887)
Net income (loss) attributable to common limited partners and the general partner	\$(141,934)	\$(51,044)	\$(132,819)	\$32,875

Allocation of net income (loss) attributable to common limited partners and the general partner:

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Common limited partners' interest	\$(139,096)	\$(50,613)	\$(130,163)	\$29,731
General partner's interest	(2,838)	(431)	(2,656)	3,144
Net income (loss) attributable to common limited partners and the general partner				
	\$(141,934)	\$(51,044)	\$(132,819)	\$32,875
Net income (loss) attributable to common limited partners per unit (Note 2):				
Basic	\$(1.36)	\$(0.56)	\$(1.27)	\$0.34
Diluted	\$(1.36)	\$(0.56)	\$(1.27)	\$0.33
Weighted average common limited partner units outstanding (Note 2):				
Basic	102,430	90,516	102,416	88,036
Diluted	102,430	90,516	102,416	88,616

See accompanying notes to condensed consolidated financial statements.

ATLAS RESOURCE PARTNERS, L.P.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(in thousands)

(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Net income (loss)	\$(141,569)	\$(46,810)	\$(128,806)	\$40,762
Other comprehensive loss:				
Derivative instruments designated as cash flow hedges:				
Reclassification to net income (loss) of mark-to-market gains	(5,555)	(25,778)	(9,070)	(53,121)
Total other comprehensive loss	(5,555)	(25,778)	(9,070)	(53,121)
Comprehensive loss attributable to common and preferred limited partners and the general partner	\$(147,124)	\$(72,588)	\$(137,876)	\$(12,359)

See accompanying notes to condensed consolidated financial statements.

ATLAS RESOURCE PARTNERS, L.P.

CONDENSED CONSOLIDATED STATEMENT OF PARTNERS' CAPITAL (DEFICIT)

(in thousands, except unit data)

(Unaudited)

General Partner's Interest	Preferred Limited Partners' Interest Class C		Class D		Class E		Common Limited Partners' Interests		Class C Common Limited Partner Warrants		
	Amount	Units	Amount	Units	Amount	Units	Amount	Units	Amount	Warrants	
51,445	\$(31,156)	3,749,986	\$85,402	4,090,328	\$97,518	256,083	\$5,819	102,160,866	\$(262,762)	562,497	\$1,176
08	—	—	—	—	—	—	—	245,175	204	—	—
	—	—	—	—	—	—	—	24,679	(298)	—	—
39	—	—	637	—	2,205	—	172	—	1,277	—	—
	(156)	—	(2,550)	—	(4,410)	—	(344)	—	(5,118)	—	—
	—	—	—	—	—	—	—	—	(11)	—	—
	(2,656)	—	1,275	—	2,540	—	198	—	(130,163)	—	—
	—	—	—	—	—	—	—	—	—	—	—
66,953	\$(33,929)	3,749,986	\$84,764	4,090,328	\$97,853	256,083	\$5,845	102,430,720	\$(396,871)	562,497	\$1,176

See accompanying notes to condensed consolidated financial statements.

ATLAS RESOURCE PARTNERS, L.P.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Six Months Ended	
	June 30, 2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$(128,806)	\$40,762
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation, depletion and amortization	59,053	85,485
(Gain) loss on derivatives	37,795	(71,808)
(Gain) loss on asset sales and disposal	493	(86)
Gain on extinguishment of debt	(26,498)	—
Other (income) loss	6,156	—
Non-cash compensation expense	(298)	4,209
Amortization of deferred financing costs and discount and premium on long-term debt	11,964	9,926
Changes in operating assets and liabilities:		
Accounts receivable, prepaid expenses and other	78,626	61,803
Accounts payable and accrued liabilities	(55,794)	(77,106)
Net cash provided by (used in) operating activities	(17,309)	53,185
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(18,820)	(69,491)
Net cash paid for acquisitions	—	(36,967)
Other	—	167
Net cash used in investing activities	(18,820)	(106,291)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings under revolving credit facility	135,000	231,000
Repayments under revolving credit facility	(57,500)	(377,000)
Borrowings under second lien term loan facility	—	242,500
Senior note repurchases	(5,528)	—
Distributions paid to unitholders	(12,578)	(83,596)
Net proceeds from issuance of common limited partner units	204	70,869
Net proceeds from issuance of preferred units	—	6,005
Arkoma transaction adjustment	—	(35,404)
Deferred financing costs, distribution equivalent rights and other	(564)	(15,908)
Net cash provided by financing activities	59,034	38,466
Net change in cash and cash equivalents	22,905	(14,640)
Cash and cash equivalents, beginning of year	1,353	15,247

Cash and cash equivalents, end of period	\$24,258	\$607
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See accompanying notes to condensed consolidated financial statements.

ATLAS RESOURCE PARTNERS, L.P.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1 – BASIS OF PRESENTATION

We are a publicly traded (OTC: ARPJ) Delaware master-limited partnership (“MLP”) and an independent developer and producer of natural gas, crude oil and natural gas liquids (“NGL”) with operations in basins across the United States. We sponsor and manage tax-advantaged investment partnerships (the “Drilling Partnerships”), in which we coinvest, to finance a portion of our natural gas, crude oil and NGL production activities. Unless the context otherwise requires, references to “Atlas Resource Partners, L.P.,” “Atlas Resource Partners,” “the Partnership,” “we,” “us,” “our” and “our companies” refer to Atlas Resource Partners, L.P. and our consolidated subsidiaries.

Atlas Energy Group, LLC (“Atlas Energy Group” or “ATLS”; OTC: ATLS), our general partner, manages our operations and activities through its ownership interest. At June 30, 2016, Atlas Energy Group owned 100% of our general partner Class A units, all of the incentive distribution rights through which it manages and effectively controls us, and an approximate 23.3% limited partner interest (20,962,485 common and 3,749,986 preferred limited partner units) in us.

In addition to its general and limited partner interest in us, ATLS also holds general and limited partner interests in Atlas Growth Partners, L.P. (“AGP”), a Delaware limited partnership and an independent developer and producer of natural gas, oil and NGLs, with operations primarily focused in the Eagle Ford Shale, and in Lightfoot Capital Partners, L.P. and Lightfoot Capital Partners GP, LLC, which incubate new MLPs and invest in existing MLPs.

At June 30, 2016, we had 102,430,720 common limited partner units issued and outstanding. The common units are a class of limited partner interests in us. The holders of common units are entitled to participate in partnership distributions, exercise the rights or privileges available to holders of common units and have limited liability as outlined in the partnership agreement.

The accompanying condensed consolidated financial statements, which are unaudited except that the balance sheet at December 31, 2015 was derived from audited financial statements, have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission and are presented in accordance with accounting principles generally accepted in the United States (“U.S. GAAP”) for interim reporting. They do not include all disclosures normally made in financial statements contained in Form 10-K. It is suggested that these interim condensed consolidated financial statements be read in conjunction with the financial statements and the notes thereto included in our latest Annual Report on Form 10-K. In management’s opinion, all adjustments necessary for a fair presentation of our financial position, results of operations and cash flows for the periods disclosed have been made. Certain amounts in the prior year’s financial statements have been reclassified to conform to the current year presentation due to the adoption of certain accounting standards (see Notes 2 and 5). The results of operations for the interim periods presented may not necessarily be indicative of the results of operations for the full year.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

Our condensed consolidated financial statements include our accounts and the accounts of our wholly-owned subsidiaries. Transactions between us and other ATLS operations have been identified in the condensed consolidated financial statements as transactions between affiliates, where applicable. All material intercompany transactions have been eliminated.

In accordance with established practice in the oil and gas industry, our condensed consolidated financial statements include our pro-rata share of assets, liabilities, income and lease operating and general and administrative costs and expenses of the Drilling Partnerships in which we have an interest. Such interests generally approximate 30%. Our condensed consolidated financial statements do not include proportional consolidation of the depletion or impairment expenses of the Drilling Partnerships. Rather, we calculate these items specific to our own economics.

Ability to Continue as a Going Concern

On July 25, 2016, we and certain of our subsidiaries and ATLS, solely with respect to certain sections thereof, entered into a Restructuring Support Agreement (the “Restructuring Support Agreement”) with (i) lenders holding 100% of our senior secured revolving credit facility (the “First Lien Lenders”), (ii) lenders holding 100% of our second lien term loan (the “Second Lien Lenders”) and (iii) holders (the “Consenting Noteholders”) and, collectively with the First Lien Lenders and the Second Lien Lenders, and their respective successors or permitted assigns that become party to the Restructuring Support Agreement, the “Restructuring Support Parties”) of approximately 80% of the aggregate principal amount outstanding of the 7.75% Senior Notes due 2021 (the “7.75% Senior Notes”) and the 9.25% Senior Notes due 2021 (the “9.25% Senior Notes”) and, together with the 7.75% Senior Notes, the “Notes”) of our subsidiaries, Atlas Resource Partners Holdings, LLC and Atlas Resource Finance Corporation (together, the “Issuers”). Under the

Restructuring Support Agreement, the Restructuring Support Parties have agreed, subject to certain terms and conditions, to support our restructuring (the “Restructuring”) pursuant to a pre-packaged plan of reorganization (the “Plan”). (See Note 3 for further information.)

On July 27, 2016, we and certain of our subsidiaries filed voluntary petitions for relief under Chapter 11 of the United States Bankruptcy Code (“Chapter 11”) in the United States Bankruptcy Court for the Southern District of New York (the “Bankruptcy Court,” and the cases commenced thereby, the “Chapter 11 Filings”). The cases commenced thereby are being jointly administered under the caption “In re: ATLAS RESOURCE PARTNERS, L.P., et al.”

The Restructuring, including as a result of us monetizing certain hedges to pay down borrowings outstanding under our senior secured credit facility, will result in a reduction of our existing debt by approximately \$900 million and elimination of approximately \$80 million of our annual debt service obligations. Pursuant to the Plan, our business assets and operations will vest in a limited liability company, which will be classified as a corporation for U.S. federal income tax purposes (“New Holdco”). We expect to consummate the Plan and emerge from Chapter 11 before the end of the third quarter of 2016. Interested parties should refer to the information and the limitations and qualifications discussed in the disclosure statement related to the Restructuring (the “Disclosure Statement”) which was filed as Exhibit 99.1 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on July 25, 2016.

We intend to continue to operate our businesses as “debtors in possession” under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of Chapter 11 and the orders of the Bankruptcy Court. Under the Plan, it is contemplated that all suppliers, vendors, employees, royalty owners, trade partners and landlords will be unimpaired by the Plan and will be satisfied in full in the ordinary course of business, and our existing trade contracts and terms will be maintained. To assure ordinary course operations, we obtained interim approval from the Bankruptcy Court on a variety of “first day” motions, including motions seeking authority to use cash collateral on a consensual basis, pay wages and benefits for individuals who provide services to us, and pay vendors, oil and gas obligations and other creditor claims in the ordinary course of business.

The Chapter 11 Filings constituted an event of default that accelerated all of our outstanding debt obligations under the First Lien Credit Facility (as defined below), the Second Lien Term Loan (as defined below) and the indenture governing the Notes. Any efforts to enforce such payments are automatically stayed as a result of the Chapter 11 Filings, and the holders’ rights of enforcement are subject to the applicable provisions of Chapter 11. Accordingly, we classified all of the aforementioned outstanding debt obligations as a current liability on our condensed consolidated balance sheet as of June 30, 2016. (See Note 5, “Debt,” for further information).

The significant risks and uncertainties related to our Chapter 11 Filings raise substantial doubt about our ability to continue as a going concern. The condensed consolidated financial statements have been prepared on a going concern basis of accounting, which contemplates continuity of operations, realization of assets, and satisfaction of liabilities and commitments in the normal course of business. The condensed consolidated financial statements do not include any adjustments that might result from the outcome of the going concern uncertainty. If we cannot continue as a going concern, adjustments to the carrying values and classification of our assets and liabilities and the reported amounts of income and expenses could be required and could be material.

Arkoma Acquisition

On June 5, 2015, we acquired coal-bed methane producing natural gas assets in the Arkoma Basin in eastern Oklahoma from ATLS (the “Arkoma Acquisition”) for \$31.5 million, net of purchase price adjustments, which was funded through the issuance of 6,500,000 of our common limited partner units. We determined that the Arkoma

Acquisition constituted a transaction between entities under common control and, accordingly, retroactively adjusted our prior period condensed consolidated financial statements assuming our common limited partners participated in the net income (loss) of the Arkoma operations before the date of the transaction.

In April 2015, the Financial Accounting Standards Board (“FASB”) updated the accounting guidance for earnings per unit (“EPU”) of master limited partnerships (“MLP”) applying the two-class method. The updated accounting guidance specifies that for general partner transfers (or “drop downs”) to an MLP accounted for as a transaction between entities under common control, the earnings (losses) of the transferred business before the date of the transaction should be allocated entirely to the general partner’s interest, and previously reported EPU of the limited partners should not change. Qualitative disclosures about how the rights to the earnings (losses) differ before and after the drop down transaction occurs are also required.

We adopted this accounting guidance upon its effective date of January 1, 2016, which resulted in the following retrospective restatement to allocate the net income (loss) of the Arkoma operations before the date of the transaction entirely to our general partner’s interest:

	Previously		
Condensed Consolidated Statement of Operations	Filed	Adjustment	Restated
Three Months Ended June 30, 2015:			

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Common limited partners' interest	\$ (50,023)	\$ (590)	\$ (50,613)
General partner's interest	\$ (1,021)	\$ 590	\$ (431)
Net loss attributable to common limited partners per unit – basic	\$ (0.55)	\$ (0.01)	\$ (0.56)
Net loss attributable to common limited partners per unit – diluted	\$ (0.55)	\$ (0.01)	\$ (0.56)

Six Months Ended June 30, 2015:

Common limited partners' interest	\$ 32,217	\$ (2,486)	\$ 29,731
General partner's interest	\$ 658	\$ 2,486	\$ 3,144
Net income attributable to common limited partners per unit – basic	\$ 0.36	\$ (0.02)	\$ 0.34
Net income attributable to common limited partners per unit – diluted	\$ 0.36	\$ (0.03)	\$ 0.33

Condensed Consolidated Balance Sheet

December 31, 2015:

Common limited partners' interest	\$ (260,276)	\$ (2,486)	\$ (262,762)
General partners' interest	\$ (33,642)	\$ 2,486	\$ (31,156)

Prior to the Arkoma Acquisition, our common limited partners did not participate in the net income (loss) of the Arkoma operations. Subsequent to the Arkoma Acquisition, our common limited partners participate in the net income (loss) of the Arkoma operations, which is determined after the deduction of the general partner's and the preferred unitholders' interests.

Use of Estimates

The preparation of our condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities that exist at the date of our condensed consolidated financial statements, as well as the reported amounts of revenue and costs and expenses during the reporting periods. Our condensed consolidated financial statements are based on a number of significant estimates, including revenue and expense accruals, depletion, depreciation and amortization, fair value of derivative instruments and fair value of certain gas and oil properties and asset retirement obligations. The oil and gas industry principally conducts its business by processing actual transactions as many as 60 days after the month of delivery. Consequently, the most recent two months' financial results were recorded using estimated volumes and contract market prices. Actual results could differ from those estimates.

Net Income Per Common Unit

Basic net income attributable to common limited partners per unit is computed by dividing net income attributable to common limited partners, which is determined after the deduction of the general partner's and the preferred unitholders' interests, by the weighted average number of common limited partner units outstanding during the period. Net income attributable to common limited partners is determined by deducting net income attributable to participating securities, if applicable, income attributable to preferred limited partners and net income attributable to the general partner's Class A units. The general partner's interest in net income is calculated on a quarterly basis based upon its Class A units and incentive distributions to be distributed for the quarter (see Note 10), with a priority allocation of net income to the general partner's incentive distributions, if any, in accordance with the partnership agreement, and the remaining net income allocated with respect to the general partner's and limited partners' ownership interests.

We present net income per unit under the two-class method for master limited partnerships, which considers whether the incentive distributions of a master limited partnership represent a participating security. The two-class method considers whether the partnership agreement contains any contractual limitations concerning distributions to the incentive distribution rights that would impact the amount of earnings to allocate to the incentive distribution rights

for each reporting period. If distributions are contractually limited to the incentive distribution rights' share of currently designated available cash for distributions as defined under the partnership agreement, undistributed earnings in excess of available cash should not be allocated to the incentive distribution rights. Under the two-class method, our management believes the partnership agreement contractually limits cash distributions to available cash; therefore, undistributed earnings are not allocated to the incentive distribution rights.

Unvested unit-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and are included in the computation of earnings per unit pursuant to the two-class method. Phantom unit awards, which consist of common units issuable under the terms of our long-term incentive plan, contain non-forfeitable rights to distribution equivalents. The participation rights would result in a non-contingent transfer of value each time we declare a distribution or distribution equivalent right during the award's vesting period. However, unless the contractual terms of the participating securities

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require the holders to share in the losses of the entity, net loss is not allocated to the participating securities. As such, the net income utilized in the calculation of net income per unit must be after the allocation of only net income to the phantom units on a pro-rata basis.

The following is a reconciliation of net income allocated to the common limited partners for purposes of calculating net income attributable to common limited partners per unit (in thousands, except unit data):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net income (loss)	\$(141,569)	\$(46,810)	\$(128,806)	40,762
Preferred limited partner dividends	(365)	(4,234)	(4,013)	(7,887)
Net income (loss) attributable to common limited partners and the general partner				
	(141,934)	(51,044)	(132,819)	32,875
Less: General partner's interest	(2,838)	(431)	(2,656)	3,144
Net income attributable to common limited partners	(139,096)	(50,613)	(130,163)	29,731
Less: Net income attributable to participating securities – phantom units	—	—	—	194
Net income (loss) utilized in the calculation of net income (loss) attributable to common limited partners per unit - Basic				
	(139,096)	(50,613)	(130,163)	29,537
Plus: Convertible preferred limited partner dividends ⁽¹⁾	—	—	—	—
Net income (loss) utilized in the calculation of net income attributable to common limited partners per unit - Diluted				
	\$(139,096)	\$(50,613)	\$(130,163)	\$29,537

(1) For the three and six months ended June 30, 2016 and 2015, distributions on our Class C convertible preferred units were excluded, because the inclusion of such preferred distributions would have been anti-dilutive.

Diluted net income attributable to common limited partners per unit is calculated by dividing net income attributable to common limited partners, less income allocable to participating securities, by the sum of the weighted average number of common limited partner units outstanding and the dilutive effect of unit option awards, convertible preferred units and warrants, as calculated by the treasury stock or if converted methods, as applicable. Unit options consist of common units issuable upon payment of an exercise price by the participant under the terms of our long-term incentive plan.

The following table sets forth the reconciliation of our weighted average number of common limited partner units used to compute basic net income attributable to common limited partners per unit with those used to compute diluted net income attributable to common limited partners per unit (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Weighted average number of common limited partner units—basic	102,430	90,516	102,416	88,036
Add effect of dilutive incentive awards ⁽¹⁾	—	—	—	580
Add effect of dilutive convertible preferred limited partner units ⁽²⁾	—	—	—	—
Weighted average number of common limited partner units—diluted	102,430	90,516	102,416	88,616

- (1) For the three and six months ended June 30, 2016, approximately 274,000 and 283,000 phantom units, respectively, were excluded from the computation of diluted earnings attributable to common limited partners per unit because the inclusion of such units would have been anti-dilutive. For the three months ended June 30, 2015, approximately 470,000 phantom units were excluded from the computation of diluted earnings attributable to common limited partners per unit because the inclusion of such units would have been anti-dilutive.
- (2) For the three and six months ended June 30, 2016 and 2015, potential common limited partner units issuable upon (a) conversion of our Class C preferred units and (b) exercise of the common unit warrants issued with the Class C preferred units were excluded from the computation of diluted earnings attributable to common limited partners per unit, because the inclusion of such units would have been anti-dilutive. As the Class D and Class E preferred units are convertible only upon a change of control event, they are not considered dilutive securities for earnings per unit purposes.

Recently Issued Accounting Standards

In February 2016, the FASB updated the accounting guidance related to leases. The updated accounting guidance requires lessees to recognize a lease asset and liability at the commencement date of all leases (with the exception of short-term leases), initially measured at the present value of the lease payments. The updated guidance is effective for us as of January 1, 2019 and requires a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest period presented. We are

currently in the process of determining the impact that the updated accounting guidance will have on our condensed consolidated financial statements.

In August 2015, the FASB updated the accounting guidance related to the balance sheet presentation of debt issuance costs specific to line of credit arrangements. The updated accounting guidance allows the option of presenting deferred debt issuance costs related to line-of-credit arrangements as an asset, and subsequently amortizing over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings. We adopted the updated accounting guidance effective January 1, 2016, and it did not have a material impact on our condensed consolidated financial statements.

In February 2015, the FASB updated the accounting guidance related to consolidation under the variable interest entity and voting interest entity models. The updated accounting guidance modifies the consolidation guidance for variable interest entities, limited partnerships and similar legal entities. We adopted this accounting guidance upon its effective date of January 1, 2016, and it did not have a material impact on our condensed consolidated financial statements.

In August 2014, the FASB updated the accounting guidance related to the evaluation of whether there is substantial doubt about an entity's ability to continue as a going concern. The updated accounting guidance requires an entity's management to evaluate whether there are conditions or events that raise substantial doubt about its ability to continue as a going concern within one year from the date the financial statements are issued and provide footnote disclosures, if necessary. We adopted this accounting guidance on January 1, 2016, and provided enhanced disclosures, as applicable, within our condensed consolidated financial statements.

In May 2014, the FASB updated the accounting guidance related to revenue recognition. The updated accounting guidance provides a single, contract-based revenue recognition model to help improve financial reporting by providing clearer guidance on when an entity should recognize revenue, and by reducing the number of standards to which an entity has to refer. In July 2015, the FASB voted to defer the effective date by one year to December 15, 2017 for annual reporting periods beginning after that date. The updated accounting guidance provides companies with alternative methods of adoption. We are currently in the process of determining the impact that the updated accounting guidance will have on our condensed consolidated financial statements and our method of adoption.

NOTE 3 – RESTRUCTURING SUPPORT AGREEMENT

As disclosed in Note 2, on July 25, 2016, we and certain of our subsidiaries and ATLS, solely with respect to certain sections thereof, entered into the Restructuring Support Agreement with the Restructuring Support Parties. On July 27, 2016, we and certain of our subsidiaries filed voluntary petitions for relief under Chapter 11 in the Bankruptcy Court. Under the Restructuring Support Agreement, the Restructuring Support Parties have agreed, subject to certain terms and conditions, to support our Restructuring pursuant to the Plan.

In particular, under the Plan, on the Plan's effective date (the "Plan Effective Date"), the First Lien Lenders will receive cash payment of all obligations owed to them by us pursuant to the senior secured revolving credit facility (other than \$440 million of principal and face amount of letters of credit) and become lenders under an exit facility credit agreement (the "First Lien Exit Facility"), composed of a \$410 million conforming reserve-based tranche and a \$30 million non-conforming tranche. The non-conforming tranche will mature on May 1, 2017 and the conforming reserve-based tranche will mature on August 23, 2019. In addition, we will enter into a new second lien credit agreement (the "Second Lien Exit Facility" and, together with the First Lien Exit Facility, the "Exit Facilities"). The Second Lien Lenders will receive a pro rata share of the Second Lien Exit Facility, which will have an aggregate

principal amount of \$250 million plus the amounts resulting from the accrual of paid in kind interest on the principal amount of \$250 million from the commencement of the Chapter 11 Filings, with interest expense paid in cash to be reduced to 2% and the remainder to be paid-in-kind from the commencement date through May 1, 2017 at a rate equal to Adjusted LIBO Rate plus 9% per annum. During the next 15-month period, cash and in-kind interest will vary based on a pricing grid tied to our leverage ratio under the revolving credit facility. After such 15-month period, interest will accrue at a rate equal to Adjusted LIBO Rate plus 9% per annum and will be payable in cash. In addition to the Second Lien Exit Facility, the Second Lien Lenders will receive a pro rata share of 10% of the common equity interests of New HoldCo, subject to dilution by a management incentive plan. Holders of the Notes, in exchange for 100% of the \$668 million aggregate principal amount of Notes outstanding plus accrued but unpaid interest as of the commencement of the chapter 11 cases, will receive, on the Plan Effective Date, 90% of the common equity interests of New HoldCo as of the Plan Effective Date, subject to dilution by a management incentive plan.

Under the Plan, holders of our limited partnership units will receive no recovery. On the Plan Effective Date, all of our preferred limited partnership units and common limited partnership units will be cancelled without the receipt of any consideration.

We intend to continue to operate our businesses as “debtors in possession” under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of Chapter 11 and the orders of the Bankruptcy Court. Under the Plan, all suppliers, vendors, employees, royalty owners, trade partners and landlords will be unimpaired by the Plan and will be satisfied in full in the ordinary course of business, and our existing trade contracts and terms will be maintained. To assure ordinary course operations, we obtained interim

approval from the Bankruptcy Court of a variety on “first day” motions, including motions seeking authority to use cash collateral on a consensual basis, pay wages and benefits for individuals who provide services to us, and pay vendors, oil and gas obligations and other creditor claims in the ordinary course of business.

Under the Plan, on the Plan Effective Date, a wholly owned subsidiary of ATLS (“ARP Mgt LLC”) will receive a preferred share of New HoldCo. The preferred share will entitle ARP Mgt LLC to receive 2% of the economics of New HoldCo (subject to dilution if catch-up contributions are not made with respect to future equity issuances, other than pursuant to the management incentive plan) and certain other rights as provided for in the Restructuring Support Agreement. Four of the seven initial members of the board of directors of New HoldCo are representatives of ARP Mgt LLC (the “New HoldCo Class A Directors”). For so long as ARP Mgt LLC holds such preferred share, the New HoldCo Class A Directors will be appointed by a majority of the Class A Directors then in office. New HoldCo will have a continuing right to purchase the preferred share at fair market value (as determined pursuant to the methodology provided for in New HoldCo’s limited liability company agreement), subject to the receipt of certain approvals, including the holders of at least 67% of the outstanding common shares of New HoldCo unaffiliated with ARP Mgt LLC voting in favor of the exercise of the right to purchase the preferred share.

In accordance with, and subject to the terms and conditions of, the Restructuring Support Agreement, each of the Restructuring Support Parties has agreed, among other things, to: (i) support and take all commercially reasonable actions necessary or reasonably requested by us to facilitate consummation of the Restructuring in accordance with the Plan and the related term sheets, including without limitation, if applicable, to timely vote to accept the Plan; (ii) use commercially reasonable efforts to support the confirmation of the Plan and approval of the Disclosure Statement and the solicitation procedures; (iii) not object to, delay, interfere, impede, or take any other action to delay, interfere or impede, directly or indirectly, with the Restructuring, confirmation of the Plan, or approval of the Disclosure Statement or the solicitation procedures; and (iv) not object to our efforts to enter into the Exit Facilities, and not object to, or support the efforts of any other person to oppose or object to, the Exit Facilities.

In accordance with, and subject to the terms and conditions of, the Restructuring Support Agreement, we have agreed, subject to applicable fiduciary duties, among other things, to: (i) support and complete the Restructuring and all transactions set forth in the Plan and the Restructuring Support Agreement; (ii) complete the Restructuring and all transactions set forth or described in the Plan; (iii) take any and all necessary actions in furtherance of the Restructuring, the Restructuring Support Agreement and the Plan; (iv) make commercially reasonable efforts to obtain any and all required regulatory and/or third-party approvals for the Restructuring; and (v) operate the business in the ordinary course, taking into account the Restructuring.

The Restructuring Support Agreement may be terminated upon the occurrence of certain events, including the failure to meet specified milestones related to filing, confirmation and consummation of the Plan, among other requirements, and in the event of certain breaches by the parties under the Restructuring Support Agreement. There can be no assurance that the restructuring transactions will be consummated.

NOTE 4 – PROPERTY, PLANT AND EQUIPMENT

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

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June	December	Estimated
30,	31,	Useful Lives
2016		