UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended September 30, 2012

or

o 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: 001-35172

NGL Energy Partners LP

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**27-3427920**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

6120 South Yale Avenue **Suite 805** **Tulsa, Oklahoma**	**74136**
(Address of Principal Executive Offices)	(Zip code)

(918) 481-1119

(Registrant s Telephone Number, Including Area Code)

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

Indicate by check mark whether the registrant 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 (Section 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 x No o

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

Large accelerated filer o	Accelerated filer o
Non-accelerated filer x	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

As of November 13, 2012, there were 47,960,480 common units and 5,919,346 subordinated units issued and outstanding.

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Forward-Looking Statements

This quarterly report on Form 10-Q contains various forward-looking statements and information that are based on our beliefs and those of our general partner, as well as assumptions made by and information currently available to us. These forward-looking statements are identified as any statement that does not relate strictly to historical or current facts. When used in this quarterly report, words such as anticipate, project, expect, plan, goal, forecast, estimate, intend, could, believe, may, will and similar expressions and statements regarding our p for future operations, are intended to identify forward-looking statements. Although we and our general partner believe that the expectations on which such forward-looking statements are based are reasonable, neither we nor our general partner can give assurances that such expectations will prove to be correct. Forward-looking statements are subject to a variety of risks, uncertainties and assumptions. If one or more of these risks or uncertainties materialize, or if underlying assumptions prove incorrect, our actual results may vary materially from those anticipated, estimated, projected or expected. Among the key risk factors that may have a direct bearing on our results of operations and financial condition are:

- the prices and market demand for petroleum products;
- energy prices generally;
- the price of propane compared to the price of alternative and competing fuels;
- the general level of petroleum product demand and the availability of propane supplies;
- the level of domestic oil, propane and natural gas production;
- the availability of imported oil and natural gas;
- the ability to obtain adequate supplies of propane for retail sale in the event of an interruption in supply or transportation and the availability of capacity to transport propane to market areas;
- actions taken by foreign oil and gas producing nations;

- the political and economic stability of petroleum producing nations;
- the effect of weather conditions on demand for oil, natural gas and propane;
- the effect of natural disasters or other significant weather events;
- availability of local, intrastate and interstate transportation infrastructure;
- availability and marketing of competitive fuels;
- the impact of energy conservation efforts;
- energy efficiencies and technological trends;
- governmental regulation and taxation;
- the impact of legislative and regulatory actions on hydraulic fracturing;
- hazards or operating risks incidental to the transporting and distributing of petroleum products that may not be fully covered by insurance;
- the maturity of the propane industry and competition from other propane distributors;
- loss of key personnel;
- the ability to renew contracts with key customers;

- the ability of our customers to perform on their contracts with us;
- the fees we charge and the margins we realize for our terminal services;

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- the ability to renew leases for general purpose and high pressure rail cars;
- the ability to renew leases for underground storage;
- the nonpayment or nonperformance by our customers;
- the availability and cost of capital and our ability to access certain capital sources;
- a deterioration of the credit and capital markets;
- the ability to successfully identify and consummate strategic acquisitions at purchase prices that are accretive to our financial results;
- the ability to successfully integrate acquired assets and businesses;
- changes in laws and regulations to which we are subject, including tax, environmental, transportation and employment regulations or new interpretations by regulatory agencies concerning such laws and regulations; and
- the costs and effects of legal and administrative proceedings.

You should not put undue reliance on any forward-looking statements. All forward-looking statements speak only as of the date of this quarterly report. Except as required by state and federal securities laws, we undertake no obligation to publicly update or revise any forward-looking statements as a result of new information, future events, or otherwise. When considering forward-looking statements, please review the risks described under Part II Item 1A Risk Factors of this quarterly report and Item 1A Risk Factors in our annual report on Form 10-K for the fiscal year ended March 31, 2012, as supplemented and updated by Part II, Item 1A, Risk Factors in our quarterly report on Form 10-Q for the quarter ended June 30, 2012.

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PART I

Item 1. Financial Statements (Unaudited)

NGL ENERGY PARTNERS LP

Unaudited Condensed Consolidated Balance Sheets

As of September 30, 2012 and March 31, 2012

(U.S. Dollars in Thousands, except unit amounts)

	September 30, 2012	March 31, 2012 (Note 3)
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 26,009	$ 7,832
Accounts receivable - trade, net of allowance for doubtful accounts of $1,356 and $818, respectively	385,494	84,004
Receivables from affiliates	3,238	2,282
Inventories	264,556	94,504
Prepaid expenses and other current assets	57,000	10,002
Total current assets	736,297	198,624
PROPERTY, PLANT AND EQUIPMENT, net of accumulated depreciation of $25,326 and $12,843, respectively	425,641	237,652
GOODWILL	515,881	170,647
INTANGIBLE ASSETS, net of accumulated amortization of $17,646 and $8,174, respectively	345,942	139,780
OTHER NONCURRENT ASSETS	5,658	2,766
Total assets	$ 2,029,419	$ 749,469
LIABILITIES AND PARTNERS EQUITY		
CURRENT LIABILITIES:		
Trade accounts payable	$ 419,750	$ 81,369
Accrued expenses and other payables	68,724	14,143
Advance payments received from customers	74,814	20,293
Payables to affiliates	11,780	9,462
Current maturities of long-term debt	78,033	19,484
Total current liabilities	653,101	144,751
LONG-TERM DEBT, net of current maturities	569,903	199,177
OTHER NONCURRENT LIABILITIES	2,599	212
COMMITMENTS AND CONTINGENCIES		
PARTNERS EQUITY, per accompanying statement:		

General Partner 0.1% interest; 50,821 and 29,245 notional units outstanding, respectively		(51,052)		442
Limited Partners 99.9% interest				
Common units 44,850,439 and 23,296,253 units outstanding, respectively		839,977		384,604
Subordinated units 5,919,346 units outstanding at September 30, 2012 and March 31, 2012		11,784		19,824
Accumulated other comprehensive income				
Foreign currency translation		28		31
Noncontrolling interests		3,079		428
Total partners equity		803,816		405,329
Total liabilities and partners equity	$	2,029,419	$	749,469

The accompanying notes are an integral part of these condensed consolidated financial statements.

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NGL ENERGY PARTNERS LP

Unaudited Condensed Consolidated Statements of Operations

Three Months and Six Months Ended September 30, 2012 and 2011

(U.S. Dollars in Thousands, except unit and per unit amounts)

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Six Months Ended September 30, 2012	Six Months Ended September 30, 2011
REVENUES:				
Retail propane	$ 57,003	$ 19,225	$ 116,211	$ 32,077
Natural gas liquids logistics	350,368	190,816	541,985	368,809
Crude oil logistics	711,021		784,538	
Water services	15,810		17,751	
Other	1,308		1,461	
Total Revenues	1,135,510	210,041	1,461,946	400,886
COST OF SALES:				
Retail propane	29,666	13,208	67,107	21,314
Natural gas liquids logistics	328,283	188,246	512,328	366,113
Crude oil logistics	693,687		770,570	
Water services	2,054		2,670	
Total Cost of Sales	1,053,690	201,454	1,352,675	387,427
OPERATING COSTS AND EXPENSES:				
Operating	39,431	7,250	62,769	14,392
General and administrative	10,443	4,164	20,403	6,200
Depreciation and amortization	13,361	1,701	22,588	3,078
Operating Income (Loss)	18,585	(4,528)	3,511	(10,211)
OTHER INCOME (EXPENSE):				
Interest income	263	99	629	225
Interest expense	(8,692)	(1,012)	(12,492)	(2,313)
Loss on early extinguishment of debt			(5,769)	
Other, net	3	46	29	131
Income (Loss) Before Income Taxes	10,159	(5,395)	(14,092)	(12,168)
INCOME TAX PROVISION	(77)		(536)	
Net Income (Loss)	10,082	(5,395)	(14,628)	(12,168)
Net (Income) Loss Allocated to General Partner	(694)	5	(789)	12
Net (Income) Loss Attributable to Noncontrolling Interests	(9)		51	
Net Income (Loss) Attributable to Parent Equity Allocated to Limited Partners	$ 9,379	$ (5,390)	$ (15,366)	$ (12,156)
Basic and Diluted Earnings (Loss) Per Common Unit	$ 0.18	$ (0.36)	$ (0.37)	$ (0.88)

Basic and Diluted Earnings (Loss) per Subordinated Unit	$ 0.18	$ (0.36)	$ (0.38)	$ (0.88)
Basic and Diluted Weighted average units outstanding:				
Common	44,831,836	8,864,222	35,730,492	9,370,997
Subordinated	5,919,346	5,919,346	5,919,346	4,431,423

The accompanying notes are an integral part of these condensed consolidated financial statements.

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NGL ENERGY PARTNERS LP

Unaudited Condensed Consolidated Statements of Comprehensive Income (Loss)

Three Months and Six Months Ended September 30, 2012 and 2011

(U.S. Dollars in Thousands)

	Three Months Ended September 30,		Six Months Ended September 30,	
	2012	2011	2012	2011
Net income (loss)	$ 10,082	$ (5,395)	$ (14,628)	$ (12,168)
Other comprehensive income (loss), net of tax:				
Change in foreign currency translation adjustment	10	(61)	(3)	(56)
Comprehensive income (loss)	$ 10,092	$ (5,456)	$ (14,631)	$ (12,224)

The accompanying notes are an integral part of these condensed consolidated financial statements.

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NGL ENERGY PARTNERS LP

Unaudited Condensed Consolidated Statement of Changes in Partners Equity

Six Months Ended September 30, 2012

(U.S. Dollars in Thousands, except unit amounts)

	General Partner	Limited Partners: Common Units	Limited Partners: Amount	Limited Partners: Subordinated Units	Limited Partners: Amount	Accumulated Other Comprehensive Income	Noncontrolling Interests	Total Partners Equity
BALANCES, MARCH 31, 2012	$ 442	23,296,253	$ 384,604	5,919,346	$ 19,824	$ 31	$ 428	$ 405,329
Distributions to partners	(144)		(18,151)		(4,588)			(22,883)
Contributions	449						302	751
Business combinations (Note 3)	(52,588)	21,554,186	486,256				2,400	436,068
Equity issuance costs			(818)					(818)
Net income (loss)	789		(11,914)		(3,452)		(51)	(14,628)
Foreign currency translation adjustment						(3)		(3)
BALANCES, SEPTEMBER 30, 2012	$ (51,052)	44,850,439	$ 839,977	5,919,346	$ 11,784	$ 28	$ 3,079	$ 803,816

The accompanying notes are an integral part of these condensed consolidated financial statements.

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NGL ENERGY PARTNERS LP

Unaudited Condensed Consolidated Statements of Cash Flows

Six Months Ended September 30, 2012 and 2011

(U.S. Dollars in Thousands)

	Six Months Ended September 30, 2012	Six Months Ended September 30, 2011
OPERATING ACTIVITIES:		
Net loss	$ (14,628)	$ (12,168)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization, including debt issuance cost amortization	31,245	4,133
Gain on sale of assets	(23)	(46)
Provision for doubtful accounts	356	109
Commodity derivative gain	(5,019)	(465)
Other	72	79
Changes in operating assets and liabilities, exclusive of acquisitions		
Accounts receivable	101,739	(10,821)
Receivables from affiliates	6,768	
Inventories	(121,981)	(94,588)
Product exchanges, net	12,663	8,856
Prepaid expenses and other assets	4,097	209
Trade accounts payable	(77,965)	25,492
Accrued expenses and other liabilities	(25,674)	1,001
Accounts payable to affiliates	(6,698)	
Advance payments received from customers	42,242	25,417
Net cash used in operating activities	(52,806)	(52,792)
INVESTING ACTIVITIES:		
Purchases of long-lived assets	(14,595)	(2,094)
Cash paid for acquisitions of businesses, including acquired working capital, net of cash acquired	(307,082)	(2,190)
Cash flows from commodity derivatives	10,692	1,327
Proceeds from sales of assets	581	182
Other	427	(92)
Net cash used in investing activities	(309,977)	(2,867)
FINANCING ACTIVITIES:		
Proceeds from sale of common units, net of offering costs	(818)	75,289
Repurchase of common units		(3,418)
Proceeds from borrowings under revolving credit facilities	594,675	98,000
Payments on revolving credit facilities	(422,675)	(113,000)
Issuance of senior notes	250,000	
Payments on other long-term debt	(251)	(979)
Debt issuance costs	(17,839)	(1,932)
Contributions	751	85
Distributions to partners	(22,883)	(6,320)
Net cash provided by financing activities	380,960	47,725
Net increase (decrease) in cash and cash equivalents	18,177	(7,934)
Cash and cash equivalents, beginning of period	7,832	16,337

Cash and cash equivalents, end of period	$	26,009	$	8,403

The accompanying notes are an integral part of these condensed consolidated financial statements.

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NGL ENERGY PARTNERS LP

Notes to Unaudited Condensed Consolidated Financial Statements

As of September 30, 2012 and March 31, 2012, and for the

Three Months and Six Months Ended September 30, 2012 and 2011

Note 1 - Organization and Operations

NGL Energy Partners LP (we or the Partnership) is a Delaware limited partnership formed in September 2010. NGL Energy Holdings LLC serves as our general partner. We completed an initial public offering in May 2011. At the time of our initial public offering, we owned and operated retail propane and wholesale natural gas liquids businesses. Subsequent to our initial public offering, we significantly expanded our operations through a number of business combinations, including the following:

- On October 3, 2011, we completed a business combination transaction with E. Osterman Propane, Inc., its affiliated companies and members of the Osterman family (collectively, Osterman), whereby we acquired retail propane operations in the northeastern United States. We issued 4,000,000 common units and paid $94.9 million, net of cash acquired, in exchange for the assets and operations of Osterman. The agreement also contemplated a post-closing payment of $4.8 million for certain specified working capital items, which was paid in November 2012.

- On November 1, 2011, we completed a business combination transaction with SemStream, L.P. (SemStream), whereby we acquired SemStream s wholesale natural gas liquids supply and marketing operations and its 12 natural gas liquids terminals. We issued 8,932,031 common units and paid $91 million in exchange for the assets and operations of SemStream, including working capital.

- On January 3, 2012, we completed a business combination transaction with seven companies associated with Pacer Propane Holding, L.P. (collectively, Pacer), whereby we acquired retail propane operations, primarily in the western United States. We issued 1,500,000 common units and paid $32.2 million in exchange for the assets and operations of Pacer, including working capital. We also assumed $2.7 million of long-term debt in the form of non-compete agreements.

- On February 3, 2012, we completed a business combination transaction with North American Propane, Inc. (North American), whereby we acquired retail propane and distillate operations in the northeastern United States. We paid $69.8 million in exchange for the assets and operations of North American, including working capital.

- During April, May, and July 2012, we completed four separate business combination transactions to acquire retail propane and distillate operations, primarily in the northeastern and southeastern United States. The largest of these was with Downeast Energy Corp. (Downeast). On a combined basis, we paid $60.5 million of cash and issued 850,676 common units in exchange for these assets and operations,

including working capital. In addition, a combined amount of approximately $0.4 million will be payable as deferred payments on the purchase price. We also assumed $5.9 million of long-term debt in the form of non-compete agreements.

- On June 19, 2012, we completed a business combination with High Sierra Energy, LP and High Sierra Energy GP, LLC (collectively, High Sierra). High Sierra s assets include water treatment and disposal facilities, two crude oil terminals, a fleet of rail cars, and a fleet of trucks. We paid $96.8 million of cash and issued 18,018,468 common units to acquire High Sierra Energy, LP. We also paid $97.4 million of High Sierra Energy, LP s long-term debt and other obligations. Our general partner acquired High Sierra Energy GP, LLC by paying $50 million of cash and issuing equity. Our general partner then contributed its ownership interests in High Sierra Energy GP, LLC to us, in return for which we paid our general partner $50 million of cash and issued 2,685,042 common units to our general partner.

As of September 30, 2012, our businesses include:

- Retail propane and distillate operations in over 20 states;

- Wholesale propane and other natural gas liquids operations throughout the United States and in Canada;

- Propane and natural gas liquids transportation and terminalling operations, conducted through 18 owned terminals and a fleet of owned and predominantly leased rail cars;

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NGL ENERGY PARTNERS LP

Notes to Unaudited Condensed Consolidated Financial Statements - Continued

As of September 30, 2012 and March 31, 2012, and for the

Three Months and Six Months Ended September 30, 2012 and 2011

- A crude oil transportation and marketing business, the assets of which include crude oil terminals, a fleet of trucks, and a fleet of leased rail cars; and

- A water treatment business, the assets of which include water treatment and disposal facilities, a fleet of water trucks, and fractionation tanks.

Note 2 - Significant Accounting Policies

Basis of Presentation

The condensed consolidated financial statements as of September 30, 2012 and March 31, 2012 and for the three months and six months ended September 30, 2012 and 2011 include our accounts and those of our controlled subsidiaries. All significant intercompany transactions and account balances have been eliminated in consolidation.

The accompanying unaudited condensed consolidated financial statements 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 condensed consolidated financial statements include all adjustments that we consider 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. Accordingly, the condensed consolidated financial statements do not include all the information and notes 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 condensed consolidated financial statements should be read in conjunction with our audited consolidated financial statements for the fiscal year ended March 31, 2012, included in our Annual Report on Form 10-K. Due to the seasonal nature of our natural gas liquids operations and other factors, the results of operations for interim periods are not necessarily indicative of the results to be expected for a full year.

The condensed consolidated balance sheet as of March 31, 2012 is derived from audited financial statements. Certain amounts previously reported have been reclassified to conform to the current presentation. In addition, as described in Note 3, certain balances as of March 31, 2012 were adjusted to reflect the final acquisition accounting for a business combination.

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported amounts 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.

Significant Accounting Policies

Our significant accounting policies are consistent with those disclosed in Note 2 of our audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended March 31, 2012. We have included information below on certain new accounting policies relevant to the businesses acquired in the June 2012 merger with High Sierra, and on certain other accounting policies that are significant to an understanding of the accompanying financial statements.

Revenue Recognition

Revenues from sales of products are recognized on a gross basis at the time title to the product sold transfers to the purchaser and collection of those amounts is reasonably assured. Sales or purchases with the same counterparty that are entered into in contemplation of one another are reported on a net basis as one transaction. Revenue from wastewater disposal trucking services is recognized when the wastewater is picked up from the customer s location or upon delivery of the wastewater to a specific delivery location, depending upon the terms of the contractual agreements. Revenue from other transportation services is recognized upon completion of the services as defined in the customer agreement. Revenue on equipment leased under operating leases is billed and recognized monthly according to the terms of the related lease agreement with the customer over the term of the lease. Net gains and losses resulting from commodity derivative instruments are recognized within cost of sales.

Revenues for the wastewater disposal business are recognized upon delivery of the wastewater to the disposal facilities. Certain agreements require customers to deliver minimum quantities of wastewater for an agreed upon period. Revenue is recognized when the wastewater is delivered, with an adjustment for the minimum volume delivery in the event that actual delivered wastewater is less than the committed minimum. Revenues from hydrocarbons recovered from wastewater are recognized upon sale.

NGL ENERGY PARTNERS LP

Notes to Unaudited Condensed Consolidated Financial Statements - Continued

As of September 30, 2012 and March 31, 2012, and for the

Three Months and Six Months Ended September 30, 2012 and 2011

Amounts billed to customers for shipping and handling costs are included in revenues in the consolidated statements of operations. Shipping and handling costs associated with product sales are included in operating expenses in the consolidated statements of operations. Taxes collected from customers and remitted to the appropriate taxing authority are excluded from revenues in the consolidated statements of operations.

Fair Value Measurements

We apply fair value measurements to certain assets and liabilities, principally our commodity and interest rate derivative instruments and assets and liabilities acquired in business combinations. Fair value represents 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 is 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. 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). 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.

- 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. The majority of our derivative financial instruments were categorized as Level 2 at September 30, 2012 and March 31, 2012 (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 categorized as Level 3 at September 30, 2012 or March 31, 2012.

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:

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NGL ENERGY PARTNERS LP

Notes to Unaudited Condensed Consolidated Financial Statements - Continued

As of September 30, 2012 and March 31, 2012, and for the

Three Months and Six Months Ended September 30, 2012 and 2011

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Six Months Ended September 30, 2012	Six Months Ended September 30, 2011
	(in thousands)			
Interest paid, exclusive of debt issuance costs	$ 6,594	$ 183	$ 9,831	$ 860
Income taxes paid	$	$	$ 176	$
Value of common units issued in retail propane combinations (Note 3)	$ 2,224	$	$ 18,874	$
Value of common units issued in High Sierra combination (Note 3)	$	$	$ 414,794	$

Cash flows from commodity derivative instruments are classified as cash flows from investing activities in the consolidated statements of cash flows.

Inventories

Inventories consist of the following:

	September 30, 2012	March 31, 2012
	(in thousands)	
Propane	$ 154,104	$ 78,993
Other natural gas liquids	66,425	9,259
Crude oil	33,501	
Other	10,526	6,252
	$ 264,556	$ 94,504

Asset Retirement Obligations

An asset retirement obligation (ARO) is a legal obligation associated with the retirement of a tangible long-lived asset that generally results from the acquisition, construction, development or normal operation of the asset. Significant inputs used to estimate an ARO include: (i) the expected

retirement date; (ii) the estimated costs of retirement, including adjustments for cost inflation and the time value of money; and (iii) the appropriate method for allocation of estimated asset retirement costs to expense. The cost for asset retirement is capitalized as part of the cost of the related long-lived assets and subsequently allocated to expense over the remaining useful lives of the assets associated with the obligation. The ARO liability is accreted to the estimated total retirement obligation over the period the related assets are used through the expected retirement date.

Note 3 Acquisitions

High Sierra combination

On June 19, 2012, we completed a business combination with High Sierra, whereby we acquired all of the ownership interests in High Sierra. We paid $96.8 million of cash and issued 18,018,468 common units to acquire High Sierra Energy, LP. These common units were valued at $406.8 million using the closing price of our units on the New York Stock Exchange on the merger date. We also paid $97.4 million of High Sierra Energy, LP s long-term debt and other obligations. Our general partner acquired High Sierra Energy GP, LLC by paying $50 million of cash and issuing equity. Our general partner then contributed its ownership interests in High Sierra Energy GP, LLC to us, in return for which we paid our general partner $50 million of cash and issued 2,685,042 common units to our general partner. We recorded the value of the 2,685,042 common units issued to our general

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NGL ENERGY PARTNERS LP

Notes to Unaudited Condensed Consolidated Financial Statements - Continued

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partner at $7.6 million, which represents an initial estimate, in accordance with GAAP, of the fair value of the equity issued by our general partner to the former owners of High Sierra s general partner. In accordance with the fair value model specified in the accounting standards, this fair value was estimated based on assumptions of future distributions and a discount rate that a hypothetical buyer might use. Under this model, the potential for distribution growth resulting from the prospect of future acquisitions and capital expansion projects would not be considered in the fair value calculation. We have not yet completed the accounting for the business combination, and this estimate of fair value is subject to change. The difference between the estimated fair value of the general partner interests issued by our general partner of $7.6 million, calculated as described above, and the fair value of the common units issued to our general partner of $60.6 million, as calculated using the closing price of the common units on the stock exchange, is reported as a reduction to equity. We incurred and charged to general and administrative expense during the six months ended September 30, 2012 approximately $3.7 million of costs related to the High Sierra transaction. We also incurred or accrued costs of approximately $653,000 related to the equity issuance that we charged to equity.

We have included the results of High Sierra s operations in our consolidated financial statements beginning on June 19, 2012. During the six months ended September 30, 2012, our consolidated statement of operations includes operating income of approximately $16.8 million generated by the operations of High Sierra. The following table summarizes the revenues and cost of sales generated from High Sierra s operations that are included in our consolidated statement of operations for the six months ended September 30, 2012 (in thousands):

	Revenues	Cost of Sales
Crude oil logistics	$ 784,538	$ 770,570
Natural gas liquids logistics	218,973	204,030
Water services	17,751	2,670
Other	1,461	
Total	$ 1,022,723	$ 977,270

We are in the process of identifying, and obtaining an independent appraisal of, the fair value of the assets and liabilities acquired in the combination with High Sierra. The estimates of fair value reflected as of September 30, 2012 are subject to change and such changes could be material. We currently expect to complete this process prior to filing our Form 10-K for the year ending March 31, 2013. We have preliminarily estimated the fair value of the assets acquired and liabilities assumed as follows (in thousands):

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Accounts receivable	$	395,223
Inventory		43,365
Receivables from affiliates		7,724
Derivative assets		10,646
Forward purchase and sale contracts		34,717
Other current assets		11,175
Property, plant and equipment:		
Land		5,900
Transportation vehicles and equipment (5 years)		12,160
Facilities and equipment (20 years)		70,409
Buildings and improvements (20 years)		29,800
Software (5 years)		2,700
Construction in progress		9,600
Intangible assets:		
Customer relationships (15 years)		174,100
Lease contracts (1-6 years)		10,500
Trade names (indefinite)		3,000
Goodwill		329,227
Assumed liabilities:		
Accounts payable		(417,057)
Accrued expenses and other current liabilities		(35,260)
Payables to affiliates		(9,016)
Advance payments received from customers		(1,237)
Derivative liabilities		(5,726)
Forward purchase and sale contracts		(22,448)
Noncurrent liabilities		(3,057)
Noncontrolling interest in consolidated subsidiary		(2,400)
Consideration paid, net of cash acquired	$	654,045

Goodwill represents the excess of the estimated consideration paid for the acquired business over the fair value of the individual assets acquired, net of liabilities. Goodwill primarily represents the value of synergies between the acquired entities and the Partnership, the opportunity to use the acquired businesses as a platform for growth, and the acquired assembled workforce. We estimate that all of the goodwill will be deductible for federal income tax purposes.

The fair value of accounts receivable is approximately $0.6 million lower than the contract value, to give effect to estimated uncollectable accounts.

Terminal Acquisition

On August 31, 2012, we completed the acquisition of a crude oil terminalling facility in Catoosa, Oklahoma for a cash payment of $7.3 million (net of cash acquired). The results of operations of this facility have been included in our consolidated results of operations beginning with the acquisition date. We are in the process of estimating the fair value of the assets and liabilities acquired. These estimates of fair value are subject to change, although we do not expect such changes to be material to our consolidated financial statements. We have preliminarily estimated the fair values of the assets acquired and liabilities assumed as follows (in thousands):

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Accounts receivable	$	39
Property, plant and equipment (5-20 years)		1,545
Customer relationships (5 years)		1,300
Goodwill		4,516
Current liabilities		(87)
Consideration paid, net of cash acquired	$	7,313

Retail combinations during the six months ended September 30, 2012

During April, May, and July 2012, we entered into four separate business combination agreements to acquire retail propane and distillate operations, primarily in the northeastern and southeastern United States. On a combined basis, we paid cash of $60.5 million and issued 850,676 common units, valued at $18.9 million, in exchange for the receipt of these assets. In addition, a combined amount of approximately $0.4 million will be payable as deferred payments on the purchase price. We also assumed $5.9 million of long-term debt in the form of non-compete agreements. We incurred and charged to general and administrative expense during the six months ended September 30, 2012 approximately $225,000 related to these acquisitions. We are in the process of identifying the fair value of the assets and liabilities acquired in the combinations. The estimates of fair value reflected as of September 30, 2012 are subject to change and changes could be material. Our preliminary estimates of the fair value of the assets acquired and liabilities assumed in these three combinations are as follows (in thousands):

Accounts receivable	$	8,323
Inventory		4,707
Other current assets		1,188
Property, plant and equipment:		
Land		4,299
Tanks and other retail propane equipment (5-20 years)		29,782
Vehicles (5 years)		9,307
Buildings (30 years)		9,505
Other equipment		1,117
Intangible assets:		
Customer relationships (10-15 years)		15,350
Tradenames (indefinite)		600
Non-compete agreements (5 years)		950
Goodwill		11,491
Other non-current assets		784
Long-term debt, including current portion		(5,922)
Other assumed liabilities		(11,666)
Fair value of net assets acquired	$	79,815

Consideration paid consists of the following (in thousands):

Cash consideration paid through September 30, 2012	$	60,518
Deferred payments on purchase price		423
Value of common units issued		18,874
Total consideration	$	79,815

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Goodwill represents the excess of the estimated consideration paid for the acquired business over the fair value of the individual assets acquired, net of liabilities. Goodwill primarily represents the value of synergies between the acquired entities and the Partnership, the opportunity to use the acquired businesses as a platform for growth, and the acquired assembled workforce. We estimate that all of the goodwill will be deductible for federal income tax purposes.

The retail combinations completed during the six months ended September 30, 2012 contributed approximately $25.1 million of revenue and approximately $16.0 million of cost of sales to our consolidated statement of operations for the six months ended September 30, 2012.

Business Combination During Fiscal 2012 for which Acquisition Accounting was Completed During Fiscal 2013

As described in Note 1, we acquired the operations of Osterman in October 2011. During the three months ended September 30, 2012 we completed the acquisition accounting. The following table presents the final allocation of the acquisition cost to the assets acquired and liabilities assumed, based on their fair values (in thousands):

	Final Allocation	Estimated Allocation as of March 31, 2012	Revision
Accounts receivable	$ 9,350	$ 5,584	$ 3,766
Inventory	3,869	3,898	(29)
Other current assets	215	212	3
Property, plant and equipment:			
Land	2,349	4,500	(2,151)
Tanks and other retail propane equipment (15-20 years)	47,160	55,000	(7,840)
Vehicles (5-20 years)	7,699	12,000	(4,301)
Buildings (30 years)	3,829	6,500	(2,671)
Other equipment (3-5 years)	732	1,520	(788)
Intangible assets:			
Customer relationships (20 years)	54,500	62,479	(7,979)
Tradenames (indefinite life)	8,500	5,000	3,500
Non-compete agreements (7 years)	700		700
Goodwill	52,267	30,405	21,862

Assumed liabilities		(9,654)		(5,431)		(4,223)
Consideration paid, net of cash acquired	$	181,516	$	181,667	$	(151)

Consideration paid consists of the following (in thousands):

		Final Allocation		Estimated Allocation as of March 31, 2012		Revision
Cash paid at closing, net of cash acquired	$	94,873	$	96,000	$	(1,127)
Fair value of common units issued at closing		81,880		81,880		
Working capital payment (expected to be paid in November 2012)		4,763		3,787		976
Consideration paid, net of cash acquired	$	181,516	$	181,667	$	(151)

We have adjusted the March 31, 2012 balances reported in these condensed consolidated financial statements to reflect the final acquisition accounting. The impact of these revisions was not material to the condensed consolidated statements of operations.

Goodwill represents the excess of the estimated consideration paid for the acquired business over the fair value of the individual assets acquired, net of liabilities. Goodwill primarily represents the value of synergies between the acquired entities and the Partnership, the opportunity to use the acquired businesses as a platform for growth, and the acquired assembled workforce. We estimate that all of the goodwill will be deductible for federal income tax purposes.

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Business Combinations During Fiscal 2012 for which Acquisition Accounting is Not Yet Complete

During the year ended March 31, 2012, we completed two other business combinations for which we have not yet completed the process of identifying the fair values of the assets and liabilities acquired. These include the Pacer and North American combinations. The estimates of fair value reflected as of March 31, 2012 and September 30, 2012 are subject to change and changes could be material. Our preliminary estimates of the fair values of the assets acquired and liabilities assumed in these two combinations are as follows (in thousands):

	Pacer	North American
Accounts receivable	$ 4,389	$ 10,338
Inventory	965	3,437
Other current assets	43	282
Property, plant and equipment:		
Land	1,400	2,600
Tanks and other retail propane equipment (15 years)	11,200	27,100
Vehicles (5 years)	5,000	9,000
Buildings (30 years)	2,300	2,200
Other equipment (3-5 years)	200	500
Intangible assets:		
Customer relationships (15 years)	21,980	9,800
Tradenames (indefinite life)	1,000	1,000
Goodwill	18,460	14,702
Assumed liabilities	(4,349)	(11,129)
Consideration paid	$ 62,588	$ 69,830

Pro Forma Results of Operations

The operations of High Sierra have been included in our statements of operations since High Sierra was acquired on June 19, 2012. The following unaudited pro forma consolidated data below are presented as if the High Sierra acquisition had been completed on April 1, 2011. The pro forma earnings per unit are based on the common and subordinated units outstanding as of September 30, 2012.

	Three Months Ended September 30,	Six Months Ended September 30,	
	2011	2012	2011
	(in thousands, except per unit amounts)		

Revenues	$ 958,704	$ 2,177,885	$ 1,914,082
Net income (loss) from continuing operations	6,593	(21,757)	12,315
Limited partners interest in net income (loss) from continuing operations	6,697	(21,720)	12,775
Basic and diluted earnings (loss) from continuing operations per Common Unit	0.13	(0.43)	0.25
Basic and diluted earnings (loss) from continuing operations per Subordinated Unit	0.13	(0.43)	0.25

The pro forma consolidated data in the table above was prepared by adding the historical results of operations of High Sierra to our historical results of operations and making certain pro forma adjustments. The pro forma adjustments included: (i) replacing High Sierra s historical depreciation and amortization expense with pro forma depreciation and amortization expense, calculated using the estimated fair values of long-lived assets recorded in the acquisition accounting; (ii) replacing High Sierra s historical interest expense with pro forma interest expense, calculated using the cash consideration paid by us in the merger multiplied by the 6.65% interest rate on the senior notes we issued at the time of the merger; and (iii) excluding approximately $12.3 million of professional fees and other expenses incurred by us and by High Sierra that were directly related to the merger. In order to calculate pro forma earnings per unit in the table above, we assumed that: (i) the same number of limited partner units outstanding at September 30, 2012 had been outstanding throughout the periods shown in the table, (ii) no incentive distributions (described in Note 10) were paid to the general partner related to the periods

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shown in the table, and (iii) all of the common units were eligible for a distribution related to the periods shown in the table. The pro forma information is not necessarily indicative of the results of operations that would have occurred if the merger had been completed on April 1, 2011, nor is it necessarily indicative of the future results of the combined operations.

Note 4 Earnings per Unit

Our earnings per common and subordinated unit for the periods indicated below were computed as follows:

	Three Months Ended September 30,		Six Months Ended September 30,	
	2012	2011	2012	2011
	(in thousands, except unit and per unit amounts)			
Earnings (loss) per common or subordinated limited partner unit:				
Net income (loss) attributable to parent equity	$ 10,073	$ (5,395)	$ (14,577)	$ (12,168)
Loss (income) allocated to general partner (*)	(694)	5	(789)	12
Net income (loss) allocated to limited partners	$ 9,379	$ (5,390)	$ (15,366)	$ (12,156)
Net income (loss) allocated to:				
Common unitholders	$ 8,286	$ (3,232)	$ (13,112)	$ (8,253)
Subordinated unitholders	$ 1,093	$ (2,158)	$ (2,254)	$ (3,903)
Weighted average common units outstanding - Basic and Diluted	44,831,836	8,864,222	35,730,492	9,370,997
Weighted average subordinated units outstanding - Basic and Diluted	5,919,346	5,919,346	5,919,346	4,431,423
Earnings (loss) per common unit - Basic and Diluted	$ 0.18	$ (0.36)	$ (0.37)	$ (0.88)
Earnings (loss) per subordinated unit - Basic and Diluted	$ 0.18	$ (0.36)	$ (0.38)	$ (0.88)

(*) The income allocated to the general partner for the three months and six months ended September 30, 2012 includes distributions to which it is entitled as the holder of incentive distribution rights (described in Note 10).

The 761,000 restricted units described in Note 10 were antidilutive for all periods presented subsequent to the grant date.

Note 5 - Property, Plant and Equipment

Our property, plant and equipment consists of the following as of the dates indicated (in thousands):

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Description and Useful Life	**September 30, 2012**	**March 31, 2012 (Note 3)**
Terminal assets (30 years)	$ 61,229	$ 60,980
Retail propane equipment (5-20 years)	152,410	120,689
Vehicles (5 years)	53,803	31,463
Water treatment equipment (20 years)	51,640	
Crude oil tanks and related equipment (20 years)	14,332	
Information technology equipment (3-5 years)	8,025	2,381
Buildings (30 years)	56,528	16,356
Land	23,231	12,616
Other (3-7 years)	14,198	5,331
Construction in progress	15,571	679
	450,967	250,495
Less: Accumulated depreciation	(25,326)	(12,843)
Net property, plant and equipment	$ 425,641	$ 237,652

Depreciation expense was $7.7 million and $1.4 million for the three months ended September 30, 2012 and 2011, respectively, and $13.8 million and $2.6 million for the six months ended September 30, 2012 and 2011, respectively.

Note 6 Goodwill and Intangible Assets

The changes in the balance of goodwill during the six months ended September 30, 2012 were as follows (in thousands):

Balance at March 31, 2012, as previously reported	$ 148,785
Revision to allocation of Osterman combination	21,862
Balance at March 31, 2012, as retrospectively adjusted (Note 3)	170,647
Acquisitions	345,234
Balance at September 30, 2012	$ 515,881

Goodwill by reportable segment is as follows in (in thousands):

	September 30,	**March 31,**

	2012	2012 (Note 3)
Retail propane	$ 105,180	$ 93,689
Natural gas liquids logistics	162,861	76,958
Crude oil logistics	125,049	
Water services	122,791	
	$ 515,881	$ 170,647

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Our intangible assets consist of the following as of the dates indicated (in thousands):

		September 30, 2012		March 31, 2012	
	Useful Lives	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount (Note 3)	Accumulated Amortization
Amortizable					
Lease and other agreements	1-8 years	$ 13,310	$ 3,531	$ 2,810	$ 1,545
Customer relationships	5-20 years	314,442	11,767	123,691	3,868
Non-compete agreements	2-7 years	3,762	1,406	2,813	919
Debt issuance costs	5-10 years	17,144	942	7,310	1,842
Total amortizable		348,658	17,646	136,624	8,174
Non-Amortizable					
Trade names	Indefinite	14,930		11,330	
Total		$ 363,588	$ 17,646	$ 147,954	$ 8,174

Expected amortization of our amortizable intangible assets is as follows (in thousands):

Year Ending March 31,	
2013 (six months)	$ 15,470
2014	28,180
2015	26,959
2016	26,022
2017	25,309
Thereafter	209,072
	$ 331,012

Amortization expense was as follows:

	Three Months Ended September 30,		Six Months Ended September 30,	
	2012	2011	2012	2011
	(in thousands)			
Recorded in				
Cost of sales	$ 1,352	$ 200	$ 1,552	$ 400

Depreciation and amortization	5,654	267	8,820	449
Interest expense	835	303	1,336	655
Loss on early extinguishment of debt			5,769	
	$ 7,841	$ 770	$ 17,477	$ 1,504

Note 7 - Long-Term Debt

Our long-term debt consists of the following:

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	September 30, 2012	March 31, 2012
	(in thousands)	
Revolving credit facility		
Expansion capital loans	$ 262,000	$
Working capital loans	124,000	
Senior notes	250,000	
Previous revolving credit facility		
Acquisition loans		186,000
Working capital loans		28,000
Other notes payable	11,936	4,661
	647,936	218,661
Less - current maturities	78,033	19,484
Long-term debt	$ 569,903	$ 199,177

On June 19, 2012, we entered into a new revolving credit agreement (the Credit Agreement) with a syndicate of banks. The Credit Agreement includes a revolving credit facility to fund working capital needs (the Working Capital Facility) and a revolving credit facility to fund acquisitions and expansion projects (the Expansion Capital Facility). Also on June 19, 2012, we entered into a Note Purchase Agreement whereby we issued $250 million of notes payable in a private placement (the Senior Notes). We used the proceeds from the issuance of the Senior Notes and borrowings under the Credit Agreement to repay existing debt and to fund the acquisition of High Sierra.

Credit Agreement

The Working Capital Facility had a total capacity of $197.5 million for cash borrowings and letters of credit at September 30, 2012, which we increased to $217.5 million in November 2012. At September 30, 2012, we had outstanding cash borrowings of $124.0 million and outstanding letters of credit of $58.2 million on the Working Capital Facility, leaving a remaining capacity of $15.3 million at September 30, 2012. The Expansion Capital Facility had a total capacity of $447.5 million for cash borrowings at September 30, 2012, which we increased to $477.5 million in November 2012. At September 30, 2012, we had outstanding cash borrowings of $262.0 million on the Expansion Capital Facility, leaving a remaining capacity of $185.5 million at September 30, 2012. The commitments under the Credit Agreement expire on June 19, 2017. We generally have the right to make early principal payments without incurring any penalties, and earlier principal payments may be required if we enter into certain transactions to sell assets or obtain new borrowings. Once during each fiscal year, we are required to prepay loans under the Working Capital Facility in order to reduce the outstanding Working Capital Facility loans to an aggregate amount of $50 million or less for 30 consecutive days.

All borrowings under the Credit Agreement bear interest, at NGL s option, at (i) an alternate base rate plus a margin of 1.75% to 2.75% per annum or (ii) an adjusted LIBOR rate plus a margin of 2.75% to 3.75% per annum. The applicable margin is determined based on the consolidated leverage ratio of NGL, as defined in the Credit Agreement. At September 30, 2012, the interest rate in effect on outstanding LIBOR borrowings was 3.22%, calculated as the LIBOR rate of 0.22% plus a margin of 3.0%. At September 30, 2012, the interest rate in effect on outstanding base rate borrowings was 5.25%, calculated as the base rate of 3.25% plus a margin of 2.0%. Commitment fees are charged at a rate ranging from 0.38% to 0.50% on any unused credit. The Credit Agreement is secured by substantially all of our assets.

At September 30, 2012, our outstanding borrowings and interest rates under our revolving credit facility were as follows (dollars in thousands):

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	Amount	Rate
Expansion capital facility		
LIBOR borrowings	$ 262,000	3.22%
Base rate borrowings		
Working capital facility		
LIBOR borrowings	97,000	3.23%
Base rate borrowings	27,000	5.25%

The Credit Agreement specifies that our leverage ratio , as defined in the Credit Agreement, cannot exceed 4.25 to 1.0 at any quarter end. At September 30, 2012, our leverage ratio was approximately 3 to 1. The Credit Agreement also specifies that our interest coverage ratio , as defined in the Credit Agreement, cannot be less than 2.75 to 1 as of the last day of any fiscal quarter. At September 30, 2012, our interest coverage ratio was approximately 8 to 1.

The Credit Agreement contains various customary representations, warranties and additional covenants, including, without limitation, limitations on fundamental changes and limitations on indebtedness and liens. Our obligations under the Credit Agreement may be accelerated following certain events of default (subject to applicable cure periods), including, without limitation, (i) the failure to pay principal or interest when due, (ii) a breach by NGL or its subsidiaries of any material representation or warranty or any covenant made in the Credit Agreement or (iii) certain events of bankruptcy or insolvency.

At September 30, 2012, we were in compliance with all covenants under our credit facility.

Senior Notes

The Senior Notes have an aggregate principal amount of $250 million and bear interest at a fixed rate of 6.65%. Interest is payable quarterly. The notes are required to be repaid in semi-annual installments of $25 million beginning on December 19, 2017 and ending on June 19, 2022. We have the option to make early principal payments, although we will be required to pay a penalty if we make an early principal payment. The Senior Notes are secured by substantially all of our assets, and rank equal in priority with borrowings under the Credit Agreement.

The Note Purchase Agreement specifies that our leverage ratio , as defined in the Note Purchase Agreement, cannot exceed 4.25 to 1.0 at any quarter end. At September 30, 2012, our leverage ratio was approximately 3 to 1. The Note Purchase Agreement also specifies that our interest coverage ratio , as defined in the Note Purchase Agreement, cannot be less than 2.75 to 1 as of the last day of any fiscal quarter. At September 30, 2012, our interest coverage ratio was approximately 8 to 1.

The Note Purchase Agreement contains various customary representations, warranties, and additional covenants that, among other things, limit our ability to (subject to certain exceptions): (i) incur additional debt, (ii) pay dividends and make other restricted payments, (iii) create or permit certain liens, (iv) create or permit restrictions on the ability of certain of our subsidiaries to pay dividends or make other distributions to us, (v) enter into transactions with affiliates, (vi) enter into sale and leaseback transactions and (vii) consolidate or merge or sell all or substantially all or any portion of our assets.

The Note Purchase Agreement provides for customary events of default that include, among other things (subject in certain cases to customary grace and cure periods): (i) non-payment of principal or interest, (ii) breach of certain covenants contained in the Note Purchase Agreement or the Senior Notes, (iii) failure to pay certain other indebtedness or the acceleration of certain other indebtedness prior to maturity if the total amount of such indebtedness unpaid or accelerated exceeds $10 million, (iv) the rendering of a judgment for the payment of money in excess of $10 million, (v) the failure of the Note Purchase Agreement, the Senior Notes, or the guarantees by the subsidiary guarantors to be in full force and effect in all material respects and (vi) certain events of bankruptcy or insolvency. Generally, if an event of default occurs (subject to certain exceptions), the trustee or the holders of at least 51% in aggregate principal amount of the then outstanding Senior Notes of any series may declare all of the Senior Notes of such series to be due and payable immediately.

At September 30, 2012, we were in compliance with all covenants under the Note Purchase Agreement.

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Previous credit facilities

On June 19, 2012, we made a principal payment of $306.8 million to retire our previous revolving credit facility. Upon retirement of this facility, we wrote off the portion of the debt issuance cost asset that had not yet been amortized. This expense is reported as Loss on early extinguishment of debt in our consolidated statement of operations for the six months ended September 30, 2012.

Other Notes Payable

The other notes payable of approximately $11.9 million mature as follows (in thousands):

Year Ending March 31,		
2013 (six months)	$	2,190
2014		2,862
2015		2,351
2016		1,933
2017		1,795
2018		805
	$	11,936

Note 8 - Income Taxes

We qualify as a partnership for income tax purposes. As a result, we generally do not pay U.S. Federal income tax. Rather, each owner reports their share of our income or loss on their individual tax returns. The aggregate difference in the basis of our net assets for financial and tax reporting purposes cannot be readily determined, as we do not have access to information regarding each partner s basis in the Partnership.

As a publicly-traded partnership, we are allowed to have non-qualifying income up to 10% of our gross income and not be subject to taxation as a corporation. We have two taxable corporate subsidiaries that hold certain assets and operations that represent non-qualifying income for a partnership. Our taxable subsidiaries are subject to income taxes related to the taxable income generated by their operations.

We also have two Canadian subsidiaries, one of which we acquired in the June 2012 merger with High Sierra, that are subject to income tax in Canada. Our income tax provision for the six months ended September 30, 2012 related to these subsidiaries was not significant.

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 position 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 September 30, 2012 or March 31, 2012. Any interest or penalties would be recognized as a component of income tax expense.

Note 9 - Commitments and Contingencies

Legal Contingencies

We are party to various claims, legal actions, and complaints arising in the ordinary course of business. In the opinion of our management, the ultimate resolution of these claims, legal actions, and complaints, after consideration of amounts accrued, insurance coverage, and other arrangements, will not have a material adverse effect on our consolidated financial position, results of operations or cash flows. However, the outcome of such matters is inherently uncertain, and estimates of our consolidated liabilities may change materially as circumstances develop.

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In February 2012, High Sierra, several of its subsidiaries and other unaffiliated parties, were notified of a claim for wrongful death and failure to maintain adequate safety precautions. At this time, we are not able to determine what amount, if any, for which we might ultimately be held liable. In March 2012, a vehicle collided with a truck owned and operated by High Sierra, which resulted in a fatality. At this time, we are not able to determine whether we will be held liable for this incident. We believe that the amount of our liability for these incidents, if any, would be covered under existing insurance coverage.

In September 2010, Pemex Exploracion y Produccion (Pemex) filed a lawsuit against a number of defendants, including High Sierra. Pemex alleges that High Sierra and the other defendants purchased condensate from a source that had acquired the condensate illegally from Pemex. We do not believe that High Sierra had knowledge at the time of the purchases of the condensate that such condensate was allegedly sold illegally to High Sierra and others. The proceedings are in an early stage, and as a result, we cannot reliably predict the outcome of this litigation. We continue to defend this matter and believe that, in the event of an adverse outcome, our total exposure would not be material to the Partnership. However, future adverse rulings by the court could result in material increases to our maximum potential exposure. We have recorded an accrued liability in the High Sierra business combination accounting, based on our best estimate of the low end of the range of probable loss.

In May 2010, two lawsuits were filed in Kansas and Oklahoma by numerous oil and gas producers (the Associated Producers), asserting that they were entitled to enforce lien rights on crude oil purchased by High Sierra and other defendants. These cases were subsequently transferred to the United States Bankruptcy Court for the District of Delaware, where they are pending. These claims relate to the bankruptcy of SemCrude, L.P. The Associated Producers are claiming damages against all defendants, including High Sierra, in excess of $72 million and assert that our allocated share of that claim is in excess of $2.1 million. The parties are in the discovery phase of the cases and no trial date has been set. We intend to continue to defend this matter.

In early 2011, IC-CO, Inc. (IC-CO) and W.E.O.C., Inc. filed an action in the United States District Court for the Eastern District of Oklahoma against J. Aron & Company claiming they are entitled to enforce lien rights on crude oil purchased by the defendants. IC-CO and W.E.O.C., Inc. sought recovery of sums they were owed for crude oil they had sold and not been paid for. The amount of their claims is approximately $80,000. However, their complaint also seeks class action certification status on behalf of all other producers located in the State of Oklahoma. In December 2011, IC-CO filed a motion seeking to amend its complaint to add additional defendants, including High Sierra. The court has not yet ruled on the motion to amend the complaint. We believe we have meritorious defenses to the claims, including those raised in a substantially similar action that High Sierra previously settled for an immaterial amount, and that the IC-CO claims are now barred by applicable statute of limitations.

One of our facilities acquired in the High Sierra merger is operating with all but one of the required permits. High Sierra has applied for the permit, which is necessary for ongoing operations. We have been informed by the State of Wyoming that we have fulfilled all of the obligations necessary to receive the permit; however, we believe that denial of the permit application could adversely affect operations. We have continued to communicate with the State of Wyoming about the status of the permit. We believe that the permit will be granted, but are unable to determine the timing of any action by the State of Wyoming.

Environmental Matters

Our operations are subject to extensive federal, state, and local environmental laws and regulations. Although we believe our operations are in substantial compliance with applicable environmental laws and regulations, risks of additional costs and liabilities are inherent in our business, and there can be no assurance that significant costs 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. 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 designed to prevent material environmental or other damage, and to limit the financial liability that could result from such events. However, some risk of environmental or other damage is inherent in our business.

Asset Retirement Obligations

We recorded an asset retirement obligation liability of $1.1 million upon completion of our business combination with High Sierra. This asset retirement obligation liability is related to the wastewater disposal assets and crude oil lease automatic custody units, for which have contractual and regulatory obligations to perform remediation and, in some instances, dismantlement and

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removal activities when the assets are abandoned. As described in Note 3, the valuation of the liabilities acquired in this merger is subject to change, once we complete the process of identifying and valuing the assumed liabilities.

In addition to the obligations described above, we may be obligated by contractual requirements to remove facilities or perform other remediation upon retirement of certain other assets. However, we do not believe the present value of these asset retirement obligations, under current laws and regulations, after taking into consideration the estimated lives of our facilities, is material to our financial position or results of operations.

Operating Leases

We have executed various noncancelable operating lease agreements for office space, product storage, trucks, rail cars, real estate, equipment and bulk propane storage tanks. Rental expense relating to operating leases was as follows (in thousands):

	2012	2011
Three months ended September 30	$ 12,486	$ 89
Six months ended September 30	17,246	177

Future minimum lease payments at September 30, 2012 are as follows for the next five years, including expected renewals (in thousands):

Year Ending March 31,	
2013 (six months)	$ 22,932
2014	45,743
2015	38,948
2016	34,568
2017	32,471

Sales and Purchase Contracts

We have entered into sales and purchase contracts for natural gas liquids and crude oil to be delivered in future periods. These contracts require that the parties physically settle the transactions with inventory. At September 30, 2012, we had the following such commitments outstanding:

	Gallons (in thousands)	Value (in $ thousands)
Natural gas liquids fixed-price purchase commitments	61,127	$ 59,523
Natural gas liquids floating-price purchase commitments	431,379	432,266
Natural gas liquids fixed-price sale commitments	179,150	198,903
Natural gas liquids floating-price sale commitments	250,421	348,427
Crude oil fixed-price purchase commitments	234,278	501,597
Crude oil fixed-price sale commitments	247,624	542,898

We account for the contracts shown in the table above as normal purchases and normal sales. Under this accounting policy election, we do not record the contracts at fair value at each balance sheet date; instead, we record the purchase or sale at the contracted value once the delivery occurs.

Certain of the forward purchase and sale contracts shown in the table above were acquired in the June 2012 merger with High Sierra. We recorded these contracts at their estimated fair values at the merger date, and we are amortizing these assets and liabilities to cost of sales over the remaining terms of the contracts. At September 30, 2012, the unamortized balances included $23.7 million recorded within other current assets, $0.3 million recorded within other noncurrent assets, $12.6 million recorded within other current liabilities, and $0.7 million recorded within other noncurrent liabilities. During the three and six months ended September 30, 2012, we recorded $1.6 million to cost of sales related to the amortization of these contract assets and liabilities. As described in Note 3, we

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are still in the process of identifying the fair values of the assets and liabilities acquired in the combination with High Sierra. The estimates of fair value reflected as of September 30, 2012 are subject to change and such changes could be material.

Note 10 Equity

Partnership Equity

The Partnership s equity consists of a 0.1% general partner interest and a 99.9% limited partner interest. Limited partner equity consists of common and subordinated units. The limited partner units share equally in the allocation of income or loss. The primary difference between 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 plus any arrearages in the payment of the minimum quarterly distribution from prior quarters. Subordinated units will not accrue arrearages.

The subordination period will end on the first business day after we have earned and paid the minimum quarterly distribution on each outstanding common unit and subordinated unit and the corresponding distribution on the general partner interest for each of three consecutive, non-overlapping four-quarter periods ending on or after June 30, 2014. Also, if we have earned and paid at least 150% of the minimum quarterly distribution on each outstanding common unit and subordinated unit, the corresponding distribution on the general partner interest and the related distribution on the incentive distribution rights for each calendar quarter in a four-quarter period, the subordination period will terminate automatically. The subordination period will also terminate automatically if the general partner is removed without cause and the units held by the general partner and its affiliates are not voted in favor of removal. When the subordination period lapses or otherwise terminates, all remaining subordinated units will convert into common units on a one-for-one basis and the common units 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.

Common Units Issued in Business Combinations

As described in Note 3, we issued common units as partial consideration for acquisitions during the six months ended September 30, 2012. The following table summarizes the changes in common units outstanding during the six months ended September 30, 2012, exclusive of unvested units granted pursuant to the Long-Term Incentive Plan (described elsewhere in Note 10):

Common units outstanding at March 31, 2012	23,296,253
Common units issued in High Sierra combination	20,703,510
Common units issued in retail propane combinations	850,676
Common units outstanding at September 30, 2012	44,850,439

In connection with the completion of these transactions, we amended our Registration Rights Agreement. The Registration Rights Agreement, as amended, provides for certain registration rights for certain holders of our common units.

On October 1, 2012, we issued 516,978 common units as partial consideration for the acquisition of certain entities operating salt water disposal wells and related assets. As described in Note 14, on November 12, 2012, we issued 1,834,414 common units to the former owners of Pecos Gathering & Marketing, L.L.C and its affiliated companies.

Distributions

Our general partner has adopted a cash distribution policy that will require us to pay a quarterly distribution to the extent we have 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.

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.

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.

	Total Quarterly Distribution Per Unit						Marginal Percentage Interest In Distributions	
							Unitholders	General Partner
Minimum quarterly distribution					$	0.337500	99.9%	0.1%
First target distribution	above	$	0.337500	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	$	0.506250	76.9%	23.1%
Thereafter	above	$	0.506250				51.9%	48.1%

The following table summarizes the distributions declared since our initial public offering:

Date Declared	Record Date	Date Paid	Amount Per Unit	Amount Paid to Limited Partners (in thousands)	Amount Paid to General Partner (in thousands)
July 25, 2011	August 3, 2011	August 12, 2011	$ 0.1669	$ 2,467	$ 3
October 21, 2011	October 31, 2011	November 14, 2011	0.3375	4,990	5
January 24, 2012	February 3, 2012	February 14, 2012	0.3500	7,735	10
April 18, 2012	April 30, 2012	May 15, 2012	0.3625	9,165	10
July 24, 2012	August 3, 2012	August 14, 2012	0.4125	13,574	134

October 17, 2012	October 29, 2012	November 14, 2012	0.4500	22,846	707

Several of our business combination agreements contain provisions that temporarily limit the distributions to which the newly-issued units were entitled. The following table summarizes the number of equivalent units that were not eligible to receive a distribution on each of the record dates:

Record Date	**Equivalent Units Not Eligible**
August 3, 2011	
October 31, 2011	4,000,000
February 3, 2012	7,117,031
April 30, 2012	3,932,031
August 3, 2012	17,862,470
October 29, 2012	516,978

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Equity-Based Incentive Compensation

Our general partner has adopted 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. The Long-Term Incentive Plan allows for the issuance of restricted units, phantom units, unit options, unit appreciation rights and other unit-based awards, as discussed below. 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 with respect to an award under the Long-Term Incentive Plan, the total number of common units outstanding will increase.

On June 15, 2012, the Board of Directors of our general partner granted 761,000 restricted units to employees and directors. The restricted units will vest in tranches subject to the continued service of the recipients. The awards may also vest in the event of a change in control, at the discretion of the Board of Directors. No distributions will accrue to or be paid on the restricted units during the vesting period. The expected vesting of the awards is summarized below:

Vesting Date	Number of Awards
January 1, 2013	215,500
July 1, 2013	197,500
July 1, 2014	175,000
July 1, 2015	86,500
July 1, 2016	86,500

The weighted-average fair value of the awards was $21.40 at September 30, 2012, which was calculated as the closing price of the common units on September 30, 2012, adjusted to reflect the fact that the restricted units are not entitled to distributions during the vesting period. We record the expense for each tranche on a straight-line basis over the period beginning with the vesting of the previous tranche and ending with the vesting of the tranche. We adjust the cumulative expense recorded through the reporting date using the estimated fair value of the awards at the reporting date. We recorded $2.3 million of expense related to these awards during the three months ended September 30, 2012 and $3.0 million of expense related to these awards during the six months ended September 30, 2012. We estimate that the expense we will record on the awards granted as of September 30, 2012 will be as follows (in thousands), after taking into consideration an estimate of forfeitures. For purposes of this calculation, we have used the closing price of the common units on September 30, 2012.

Year ending March 31,		
2013 (six months)	$	4,535
2014		5,038
2015		2,272
2016		1,690
2017		416
Total	$	13,951

As of September 30, 2012, 4,314,743 units remain available for issuance under the Long-Term Incentive Plan.

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 values due to their short-term nature. The carrying amounts of our debt obligations reasonably approximate their fair values at September 30, 2012, as most of our debt is subject to terms that were recently negotiated.

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Interest Rate Swap Agreement

We have entered into an interest rate swap agreement to hedge the risk of interest rate fluctuations on our long term debt. This agreement converts a portion of our revolving credit facility floating rate debt into fixed rate debt on a notional amount of $8.5 million and ends on September 30, 2013. 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 this agreement as a hedge. We recorded a liability of $0.1 million at September 30, 2012 and a liability of $0.2 million at March 31, 2012 related to this agreement.

Commodity Derivatives

The following table summarizes the estimated fair values of the commodity derivative assets (liabilities) reported on the consolidated balance sheet at September 30, 2012:

	Derivative Assets	Derivative Liabilities
	(in thousands)	
Level 1 measurements	$ 2,047	$ (3,568)
Level 2 measurements	30,244	(18,733)
	32,291	(22,301)
Netting of counterparty contracts	(11,258)	11,258
Cash collateral provided or held	(9,289)	2,565
Commodity contracts reported on consolidated balance sheet	$ 11,744	$ (8,478)

The following table summarizes the estimated fair values of the commodity derivative assets (liabilities) reported on the consolidated balance sheet at March 31, 2012:

	Derivative Assets	Derivative Liabilities
	(in thousands)	
Level 1 measurements	$	$
Level 2 measurements		(36)

				(36)
Netting of counterparty contracts				
Cash collateral provided or held				
Commodity contracts reported on consolidated balance sheet	$		$	(36)

The commodity derivative assets (liabilities) are reported in the following accounts on the consolidated balance sheets:

		September 30, 2012		March 31, 2012
		(in thousands)		
Other current assets	$	11,143	$	
Other noncurrent assets		601		
Other current liabilities		(8,003)		(36)
Other noncurrent liabilities		(475)		
Net asset (liability)	$	3,266	$	(36)

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The following table sets forth our open commodity derivative contract positions at September 30, 2012 and March 31, 2012. We do not account for these derivatives as hedges.

As of September 30, 2012 -				
Propane swaps (1)	May 2011 - March 2014	(394)	$	11,354
Heating oil calls and futures (2)	May 2012 - June 2013	188		2,400
Crude swaps (3)	September 2012 - December 2013	(429)		1,411
Crude - butane spreads (4)	September 2012 - March 2013	(34)		(1,778)
Crude forwards (5)	September 2012 - December 2013	(300)		3,245
Butane forwards (6)	September 2012 - October 2013	34		(6,642)
				9,990
Less: Margin deposits				(6,724)
Net fair value of commodity derivatives on consolidated balance sheet				3,266
As of March 31, 2012 -				
Propane swaps	April 2012 - March 2013	(3,702)	$	(36)

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(1) Propane swaps Our natural gas liquids business routinely purchases inventory during the warmer months and stores the inventory for sale in the colder months. The contracts listed in this table as propane swaps represent financial derivatives we have entered into as an economic hedge against the risk that propane prices will decline while we are holding the inventory.

(2) Heating oil calls and futures Our retail operations routinely offer our customers the opportunity to purchase a specified volume of heating oil at a fixed price. The contracts listed in this table as heating oil calls and futures represent financial derivatives we have entered into as an economic hedge against the risk that heating oil prices will rise between the time we entered into the fixed price sale commitment with the customers and the time we will the purchase heating oil to sell to the customers.

(3) Crude swaps - Our crude oil logistics operations routinely enter into crude oil purchase and sale contracts that are priced based on a crude oil index. These indices may vary in the type or location of crude oil, or in the timing of delivery within a given month. The contracts listed in this table as crude swaps represent hedges against the risk that changes in the different index prices would reduce the margins between the purchase and the sale transactions.

(4) Crude-butane spreads Our crude oil logistics business has entered into certain forward contracts to sell butane at a price that will be calculated as a specified percentage of a crude oil index at the delivery date. The contracts listed in this table as crude butane spreads represent financial derivatives we have entered into as economic hedges against the risk that the spread between butane prices and crude prices will narrow between the time we entered into the butane forward sale contracts and the expected delivery dates.

(5) Crude forwards - Our crude oil logistics business routinely purchases crude oil inventory to enable us to fulfill future orders expected to be placed by our customers. The contracts listed in this table as crude forwards represent financial derivatives we have entered into as an economic hedge against the risk that crude oil prices will decline while we are holding inventory.

(6) Butane forwards - Our natural gas liquids logistics business routinely purchases butane inventory to enable us to fulfill future orders expected to be placed by our customers. The contracts listed in this table as butane forwards represent financial derivatives we have entered into as an economic hedge against the risk that butane prices will decline while we are holding inventory.

We recorded the following net gains (losses) from our commodity and interest rate derivatives during the periods indicated:

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	Three Months Ended September 30,		Six Months Ended September 30,	
	2012	2011	2012	2011
	(in thousands)			
Commodity contracts -				
Unrealized gain (loss)	$ 9,476	$ 1,384	$ 11,405	$ (862)
Realized gain (loss)	(8,685)	(890)	(6,386)	1,327
Interest rate swaps	(4)	(9)	(5)	(287)
Total	$ 787	$ 485	$ 5,014	$ 178

The commodity contract gains and losses are included in cost of sales in the consolidated statements of operations. The gain or loss on the interest rate contracts is recorded in interest expense.

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.

As described in Note 14, we completed a business combination in November 2012 whereby we acquired Pecos Gathering & Marketing L.L.C. and certain of its affiliated entities (collectively, Pecos) that conduct crude oil logistics operations in Texas and New Mexico. The acquired operations sell a substantial amount of crude oil each month to one customer. The credit terms with this customer call for us to collect payment on a monthly basis. We entered into an agreement with the sellers of Pecos to provide some protection against the risk that we are unable to collect our receivables from this significant customer. The sellers of Pecos agreed to place certain of our common units that they own into escrow; if the customer defaults on its obligation to us within the six months following the date of the business combination, the sellers of Pecos will return the common units to us as partial compensation for the loss we would sustain on the uncollectable accounts receivable. This agreement may terminate early if we obtain a new credit enhancement facility to replace this agreement. In addition, the number of common units we would be entitled to recover under this agreement could be reduced if there is a decline in our sales to the customer.

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.

Note 12 - Segments

Our reportable segments are based on the way in which our management structure is organized. Certain financial data related to our segments is shown below.

Our retail propane segment sells propane and petroleum distillates to end users consisting of residential, agricultural, commercial, and industrial customers, and to certain re-sellers. Our retail propane segment consists of two divisions, which are organized based on the location of the operations.

Our natural gas liquids logistics segment supplies propane and other natural gas liquids, and provides natural gas liquids transportation, terminalling, and storage services to retailers, wholesalers, and refiners. This segment includes our historical natural gas liquids operations and the natural gas liquids operations acquired in the June 2012 merger with High Sierra. We previously reported our natural gas liquids operations in two segments, referred to as our   wholesale marketing and supply   and   midstream   segments. The data in the table below has been presented under our new structure for all periods, with the amounts previously reported in the wholesale marketing and supply and midstream segments reported on a combined basis within the natural gas liquids logistics segment.

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Our crude oil logistics segment sells crude oil and provides crude oil transportation services to wholesalers and refiners. These operations were acquired in our June 2012 merger with High Sierra.

Our water services segment provides services for the transportation, treatment, and disposal of waste-water generated from oil and natural gas production, and generates revenue from the sale of recycled wastewater and recovered hydrocarbons. These operations were acquired in our June 2012 merger with High Sierra.

Items labeled corporate and other in the table below include the operations of a compressor leasing business that we acquired in our June 2012 merger with High Sierra, and also include certain corporate expenses that are incurred and are not allocated to the reportable segments. This data is included to reconcile the data for the reportable segments to data in our consolidated financial statements.

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	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Six Months Ended September 30, 2012	Six Months Ended September 30, 2011
	(in thousands)			
Revenues:				
Retail propane -				
Propane sales	$ 37,939	$ 16,062	$ 77,791	$ 26,256
Distillate sales	10,859		22,623	
Sales of equipment, water softener, and other	4,311	1,680	8,101	3,120
Service and rental revenues	3,894	1,483	7,696	2,701
Natural gas liquids logistics -				
Propane sales	116,980	164,942	222,824	311,241
Other natural gas liquids sales	244,346	38,169	339,762	76,706
Storage and transportation revenues	5,495	443	8,321	760
Crude oil logistics	714,333		788,211	
Water services	15,810		17,751	
Other	1,308		1,461	
Elimination of intersegment sales	(19,765)	(12,738)	(32,595)	(19,898)
Total revenues	$ 1,135,510	$ 210,041	$ 1,461,946	$ 400,886
Depreciation and Amortization:				
Retail propane	$ 5,187	$ 1,388	$ 11,928	$ 2,455
Natural gas liquids logistics	3,553	313	5,450	623
Crude oil logistics	1,680		1,940	
Water services	2,768		3,050	
Corporate and other	173		220	
Total depreciation and amortization	$ 13,361	$ 1,701	$ 22,588	$ 3,078
Operating Income (Loss):				
Retail propane	$ (469)	$ (3,098)	$ (6,640)	$ (6,292)
Natural gas liquids logistics	10,217	272	11,402	(1,393)
Crude oil logistics	10,129		5,819	
Water services	4,377		4,547	
Corporate and other	(5,669)	(1,702)	(11,617)	(2,526)
Total operating income (loss)	$ 18,585	$ (4,528)	$ 3,511	$ (10,211)
Other items not allocated by segment:				
Interest income	263	99	629	225
Interest expense	(8,692)	(1,012)	(12,492)	(2,313)
Loss on early extinguishment of debt			(5,769)	
Other income, net	3	46	29	131
Income tax expense	(77)		(536)	
Net income (loss)	$ 10,082	$ (5,395)	$ (14,628)	$ (12,168)
Geographic Information:				
Revenues:				

United States	$ 1,090,276	$ 210,041	$ 1,410,084	$ 400,886
Canada	45,234		51,862	
Operating income (loss):				
United States	20,243	(4,528)	3,703	(10,211)
Canada	(1,658)		(192)	
Additions to property, plant and equipment, including acquisitions (accrual basis):				
Retail propane	$ 2,536	$ 2,340	$ 57,247	$ 3,056
Natural gas liquids logistics	3,333	34	5,444	228
Crude oil logistics	2,836		28,314	
Water services	4,579		96,357	
Corporate and other	1,213		13,357	
Total	$ 14,497	$ 2,374	$ 200,719	$ 3,284

Total assets:		
Natural gas liquids logistics	668,545	325,173
Water services	309,096	
Total	$ 2,029,419	$ 749,469
Long-lived assets, net:		
Natural gas liquids logistics	307,111	176,419
Water services	297,078	
Total	$ 1,287,464	$ 548,079

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NGL ENERGY PARTNERS LP

Notes to Unaudited Condensed Consolidated Financial Statements - Continued

As of September 30, 2012 and March 31, 2012, and for the

Three Months and Six Months Ended September 30, 2012 and 2011

Note 13 Transactions with Affiliates

Since our business combination with SemStream on November 1, 2011, SemGroup Corporation (SemGroup) has held ownership interests in us and in our general partner, and has had the right to appoint two members to the Board of Directors of our general partner. Subsequent to November 1, 2011, our natural gas liquids logistics segment has sold natural gas liquids to and purchased natural gas liquids from affiliates of SemGroup. Certain members of management of High Sierra who joined our management team upon completion of the June 19, 2012 merger with High Sierra own interests in several entities. Subsequent to this business combination with High Sierra, we have purchased products and services from and have sold products and services to these entities. These transactions are summarized in the table below (in thousands):

	Three Months Ended September 30, 2012	Six Months Ended September 30, 2012
Sales to SemGroup	$ 11,598	$ 24,280
Purchases from SemGroup	14,529	27,077
Sales to entities affiliated with High Sierra management	1,137	1,326
Purchases from entities affiliated with High Sierra management	13,895	15,651

Receivables from affiliates consist of the following (in thousands):

	September 30, 2012	March 31, 2012
Receivables from entities affiliated with High Sierra management	$ 609	$
Receivables from SemGroup	1,750	1,878
Other	879	404
	$ 3,238	$ 2,282

Payables to affiliates consist of the following (in thousands):

	September 30, 2012	March 31, 2012 (Note 3)
Payables to entities affiliated with High Sierra management	$ 371	$

Working capital settlement on Osterman acquisition		4,763		4,763
Payables to SemGroup		6,480		4,699
Other		166		
	$	11,780	$	9,462

As described in Note 1, we completed a merger with High Sierra Energy, LP and High Sierra Energy GP, LLC in June 2012, which involved certain transactions with our general partner. We paid $96.8 million of cash and issued 18,018,468 common units to acquire High Sierra Energy, LP. We also paid $97.4 million of High Sierra Energy, LP s long-term debt and other obligations. Our general partner acquired High Sierra Energy GP, LLC by paying $50 million of cash and issuing equity. Our general partner then contributed its ownership interests in High Sierra Energy GP, LLC to us, in return for which we paid our general partner $50 million of cash and issued 2,685,042 common units to our general partner.

As described above, certain members of management of High Sierra who joined our management team upon completion of the June 19, 2012 merger with High Sierra own interests in several entities. On August 31, 2012, our crude oil logistics segment

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NGL ENERGY PARTNERS LP

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acquired a petroleum products terminal from one of these entities. The purchase price was $7.3 million (net of cash acquired) including working capital, which is subject to customary post-closing adjustments.

Note 14 Subsequent Events

During October 2012, we completed a business combination whereby we acquired certain entities that operate salt water disposal wells and related assets. During October and November 2012, we acquired two retail propane businesses. On a combined basis, we paid cash of $42.2 million and issued 516,978 common units (valued at $12.4 million) as consideration for these acquisitions. An additional $1.1 million will be payable under non-compete agreements. The agreements contemplate post-closing adjustments to the purchase prices for certain specified working capital items.

On November 1, 2012, we completed a business combination whereby we acquired Pecos Gathering & Marketing, L.L.C. and certain of its affiliated companies (collectively, Pecos). The business of Pecos consists primarily of crude oil purchasing and logistics operations in Texas and New Mexico. We paid cash of $134.8 million at closing, subject to customary post-closing adjustments, and assumed certain obligations with a value of $10.4 million under certain equipment financing facilities. Also on November 1, 2012, we entered into an agreement with the former owners of Pecos pursuant to which the former owners of Pecos agreed to purchase a minimum of $45 million or a maximum of $60 million of common units from us. On November 12, 2012, the former owners purchased 1,834,414 common units from us for $45.0 million pursuant to this agreement.

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

The following is a discussion of our financial condition and results of operations as of and for the three months and six months ended September 30, 2012. The discussion should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and the historical consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended March 31, 2012.

Overview

NGL Energy Partners LP (we or the Partnership) is a Delaware limited partnership formed in September 2010. NGL Energy Holdings LLC serves as our general partner. We completed an initial public offering in May 2011. At the time of our initial public offering, we owned and operated retail propane and wholesale natural gas liquids businesses. Subsequent to our initial public offering, we significantly expanded our operations through a number of business combinations, including the following:

- On October 3, 2011, we completed a business combination transaction with E. Osterman Propane, Inc., its affiliated companies and members of the Osterman family (collectively, Osterman), whereby we acquired retail propane operations in the northeastern United States. We issued 4,000,000 common units and paid $94.9 million, net of cash acquired, in exchange for the assets and operations of Osterman. The agreement also contemplated a post-closing payment of $4.8 million for certain specified working capital items, which was paid in November 2012.

- On November 1, 2011, we completed a business combination transaction with SemStream, L.P. (SemStream), whereby we acquired SemStream s wholesale natural gas liquids supply and marketing operations and its 12 natural gas liquids terminals. We issued 8,932,031 common units and paid $91 million in exchange for the assets and operations of SemStream, including working capital.

- On January 3, 2012, we completed a business combination transaction with seven companies associated with Pacer Propane Holding, L.P. (collectively, Pacer), whereby we acquired retail propane operations, primarily in the western United States. We issued 1,500,000 common units and paid $32.2 million in exchange for the assets and operations of Pacer, including working capital. We also assumed $2.7 million of long-term debt in the form of non-compete agreements.

- On February 3, 2012, we completed a business combination transaction with North American Propane, Inc. (North American), whereby we acquired retail propane and distillate operations in the northeastern United States. We paid $69.8 million in exchange for the assets and operations of North American, including working capital.

- During April, May, and July 2012, we completed four separate business combination transactions to acquire retail propane and distillate operations, primarily in the northeastern and southeastern United States. The largest of these was with Downeast Energy Corp. (Downeast). On a combined basis, we paid $60.5 million of cash and issued 850,676 common units in exchange for these assets and operations,

including working capital. In addition, a combined amount of approximately $0.4 million will be payable as deferred payments on the purchase price. We also assumed $5.9 million of long-term debt in the form of non-compete agreements.

- On June 19, 2012, we completed a business combination with High Sierra Energy LP and High Sierra Energy GP, LLC (collectively, High Sierra), whereby we acquired all of the ownership interests in High Sierra. High Sierra s businesses include crude oil gathering, transportation and marketing; water treatment, disposal, and transportation; and natural gas liquids transportation and marketing. We paid $96.8 million of cash and issued 18,018,468 common units to acquire High Sierra Energy, LP. We also paid $97.4 million of High Sierra Energy, LP s long-term debt and other obligations. Our general partner acquired High Sierra Energy GP, LLC by paying $50 million of cash and issuing equity. Our general partner then contributed its ownership interests in High Sierra Energy GP, LLC to us, in return for which we paid our general partner $50 million of cash and issued 2,685,042 common units to our general partner.

As of September 30, 2012, our businesses include:

- Our retail propane business, which sells propane and distillates to end users consisting of residential, agricultural, commercial, and industrial customers in over 20 states and to certain re-sellers;

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- Our natural gas liquids logistics business, which supplies propane and other natural gas liquids to retailers, wholesalers, and refiners throughout the United States and in Canada, and which provides natural gas liquids terminalling services through its 18 terminals throughout the United States and rail car transportation services through its fleet of owned and predominantly leased rail cars;

- A crude oil logistics business, the assets of which include crude oil terminals, a fleet of trucks, and a fleet of leased rail cars; and

- A water services business, the assets of which include water treatment and disposal facilities, a fleet of water trucks, and fractionation tanks.

Our retail propane segment sells propane, petroleum distillates, and equipment and supplies to residential, agricultural, commercial, and industrial end-users. Our retail propane segment purchases a large portion of its propane from our natural gas liquids logistics segment. Our retail propane segment generates margins based on the difference between the wholesale cost of product and the selling price of the product in the retail markets. These margins fluctuate over time due to supply and demand conditions. Weather conditions have a significant impact on our sales volumes and prices, as a significant portion of our sales are to residential customers who purchase propane and distillates for home heating purposes.

Our natural gas liquids logistics segment purchases propane, butane, and other natural gas liquids from refiners, processing plants, producers, and other parties, and sells the product to retailers, refiners, and other participants in the wholesale markets. Our natural gas liquids logistics segment owns 18 terminals and operates a fleet of leased rail cars and leases storage capacity. The margins we realize in our wholesale business are substantially lower on a per gallon basis than the margins we realize in our retail business. We attempt to reduce our exposure to the impact of price fluctuations by using back-to-back contractual agreements and pre-sale agreements that essentially allow us to lock in a margin on a percentage of our winter volumes. We also attempt to reduce our exposure to the impact of price fluctuations by entering into swap agreements whereby we agree to pay a floating rate and receive a fixed rate on a specified notional amount of product. We enter into these agreements as economic hedges against the potential decline in the value of a portion of our inventory. Our natural gas liquids logistics segment includes the operations that were previously reported in our wholesale marketing and supply and terminals segments. Our natural gas liquids logistics segment also includes the natural gas liquids operations we acquired in our June 2012 merger with High Sierra.

Our crude oil transportation and marketing business purchases crude oil from producers and transports it for resale at pipeline injection points, storage terminals, barge loading facilities, rail facilities, refineries, and other trade hubs. We attempt to reduce our exposure to price fluctuations by using back-to-back contractual agreements whenever possible. In addition, we enter into forward contracts, financial swaps, and commodity spread trades as economic hedges of our physical forward sales and purchase contracts with our customers and suppliers. The operations of our crude oil logistics segment began with our June 2012 merger with High Sierra.

Our water services business generates revenues from the transportation, treatment, and disposal of waste-water generated from oil and natural gas production operations, and from the re-sale of recycled water and recovered hydrocarbons. The operations of our water services segment began with our June 2012 merger with High Sierra.

Seasonality and Weather

Seasonality and weather have a significant impact on the demand for propane and butane. The most significant impact of seasonality and weather is on our retail segment. A large portion of our retail operation is in the residential market where propane and distillates are used primarily for heating purposes. Approximately 70% of our retail volume is sold during the peak heating season from October through March. Seasonal volume variations also impact our wholesale operations. Consequently, we expect our sales, operating profits and operating cash flows to be greater 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.

Propane Price Fluctuations

Fluctuations in the price of propane can have a direct impact on our reported revenues and sales volumes and may affect our gross margins depending on our success in passing cost increases on to our retail propane and wholesale supply and marketing customers. The range of low and high spot propane prices per gallon at two key pricing hubs for the periods indicated and the prices as of period end were as follows:

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	Conway, Kansas Spot Price Per Gallon Low		High		Spot Price Per Gallon At Period End
For the Three Months Ended September 30:					
2012	$	0.5069	$	0.8838	$ 0.7919
2011		1.3663		1.4750	1.4269
For the Six Months Ended September 30:					
2012	$	0.5038	$	0.9625	$ 0.7919
2011		1.2763		1.4900	1.4269

	Mt. Belvieu, Texas Spot Price Per Gallon Low		High		Spot Price Per Gallon At Period End
For the Three Months Ended September 30:					
2012	$	0.7925	$	0.9888	$ 0.9150
2011		1.4438		1.6275	1.5119
For the Six Months Ended September 30:					
2012	$	0.7063	$	1.2175	$ 0.9150
2011		1.3800		1.6275	1.5119

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.

Recent Developments

During October 2012, we completed a business combination whereby we acquired certain entities that operate salt water disposal wells and related assets. During October and November 2012, we acquired two retail propane businesses. On a combined basis, we paid cash of $42.2 million and issued 516,978 common units (valued at $12.4 million) as consideration for these acquisitions. An additional $1.1 million will be payable under non-compete agreements. The agreements contemplate post-closing adjustments to the purchase prices for certain specified working capital items.

On November 1, 2012, we completed a business combination agreement whereby we acquired Pecos Gathering & Marketing, L.L.C. and certain of its affiliated companies (collectively, Pecos). The business of Pecos consists primarily of crude oil purchasing and logistics operations in Texas and New Mexico. We paid cash of $134.8 million at closing, subject to customary post-closing adjustments, and assumed certain obligations with a value of $10.4 million under certain equipment financing facilities. Also on November 1, 2012, we entered into an agreement with the former owners of Pecos pursuant to which the former owners of Pecos agreed to purchase a minimum of $45 million or a maximum of $60 million of common units from us. On November 12, 2012, the former owners purchased 1,834,414 common units from us for $45.0 million pursuant to this agreement.

Summary Discussion of Operating Results for the Three Months ended September 30, 2012

Our retail propane segment generated an operating loss of $0.5 million during the three months ended September 30, 2012, which was lower than the operating loss of $3.1 million during the three months ended September 30, 2011. Our retail propane segment generated $0.6 million of operating income during the three months ended September 30, 2012 from businesses acquired during the last twelve months, including Osterman, Pacer, North American, and Downeast. The operations that we owned during the corresponding quarter in the prior year experienced more favorable operating results during the three months ended September 30, 2012 than during the three months ended September 30, 2011, which was due primarily to improved margins on propane sales. Although the average selling price per gallon of propane was lower in the current year than in the prior year, the average cost per gallon decreased by a larger amount than the selling price, and volumes were similar over the two periods.

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Our natural gas liquids logistics segment generated operating income of $10.2 million during the three months ended September 30, 2012. This was due to $12.7 million of operating income related to the operations acquired in the merger with High Sierra. Our legacy wholesale operations generated an operating loss during the three months ended September 30, 2012.

Weather conditions were unusually warm during the recent winter heating season, which significantly reduced the demand for propane. Because of this, and due to continued high levels of production of natural gas and limitations on export infrastructure, the market price for propane and other natural gas liquids was lower during the three months ended September 30, 2012 than during the corresponding period in the prior year.

The operations of our crude oil logistics segment were acquired in our merger with High Sierra. This segment generated operating income of $10.1 million during the three months ended September 30, 2012, which included unrealized gains of $6.7 million on derivatives.

The operations of our water services segment were acquired in our merger with High Sierra. This segment generated operating income of $4.4 million during the three months ended September 30, 2012.

Analysis of our operating results by segment for the three months and six months ended September 30, 2012 is provided below.

Consolidated Results of Operations

The following table summarizes our historical consolidated statements of operations for the three and six months ended September 30, 2012 and 2011.

	Three Months Ended September 30,		Six Months Ended September 30,	
	2012	**2011**	**2012**	**2011**
		(in thousands)		
Revenues	$ 1,135,510	$ 210,041	$ 1,461,946	$ 400,886
Cost of sales	1,053,690	201,454	1,352,675	387,427
Operating and general and administrative expenses	49,874	11,414	83,172	20,592
Depreciation and amortization	13,361	1,701	22,588	3,078
Operating income (loss)	18,585	(4,528)	3,511	(10,211)
Interest expense	(8,692)	(1,012)	(12,492)	(2,313)
Loss on early estinguishment of debt			(5,769)	
Interest and other income	266	145	658	356
Income (loss) before income taxes	10,159	(5,395)	(14,092)	(12,168)
Income tax provision	(77)		(536)	
Net income (loss)	10,082	(5,395)	(14,628)	(12,168)
Net (income) loss allocated to general partner	(694)	5	(789)	12
Net (income) loss attributable to noncontrolling interests	(9)		51	

Net income (loss) attributable to parent equity allocated to limited partners	$	9,379	$	(5,390)	$	(15,366)	$	(12,156)

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

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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 primarily of interest on borrowings under a revolving credit facility, letter of credit fees, and amortization of debt issuance costs. See Note 7 to our condensed consolidated financial statements included elsewhere in this report for additional information on our long-term debt. The increase in interest expense during the periods presented is due primarily to increases in the average outstanding total debt balance. The average interest rate, amortization of debt issuance costs, and letter of credit fees were as follows (dollars in thousands):

	Letter of Credit Fees	Amortization of Debt Issuance Costs	Average Debt Balance Outstanding - Revolving Facilities	Average Interest Rate - Revolving Facilities	Average Debt Balance Outstanding - Senior Notes	Interest Rate - Senior Notes
Three Months Ended September 30,						
2012	$ 310	$ 835	$ 366,283	3.46%	$ 250,000	6.65%
2011	134	303	25,250	5.23%		
Six Months Ended September 30,						
2012	$ 416	$ 1,336	$ 320,272	3.61%	$ 142,077	6.65%
2011	242	655	34,810	5.13%		

On June 19, 2012, we retired our previous revolving credit facility. Upon retirement of this facility, we wrote off the portion of the debt issuance cost asset that had not yet been amortized. This expense is reported as Loss on early extinguishment of debt in our consolidated statement of operations for the six months ended September 30, 2012.

The increased levels of debt outstanding during the six months ended September 30, 2012 are due primarily to borrowings to finance acquisitions and to finance working capital for our natural gas liquids logistics operations.

Interest and Other Income

Our non-operating income consists of the following:

	Three Months Ended September 30,		Six Months Ended September 30,	
	2012	2011	2012	2011
	(in thousands)			
Interest income	$ 263	$ 99	$ 629	$ 225

Other	3	46	29	131
	$ 266	$ 145	$ 658	$ 356

Income Tax Provision

We qualify as a partnership for income tax purposes. As such, we generally do not pay U.S. Federal income tax. Rather, each owner reports their share of our income or loss on their individual tax returns. The aggregate difference in the basis of our net assets for financial and tax reporting purposes cannot be readily determined, as we do not have access to information regarding each partner s basis in the Partnership.

As a publicly-traded partnership, we are allowed to have non-qualifying income up to 10% of our gross income and not be subject to taxation as a corporation. We have two taxable corporate subsidiaries that hold certain assets and operations that represent non-qualifying income for a partnership. Our taxable subsidiaries are subject to income taxes related to the taxable income generated by these operations.

We also have two Canadian subsidiaries, one of which we acquired in the June 2012 merger with High Sierra, that are subject to income tax in Canada. Our income tax provision for the six months ended September 30, 2012 related to these subsidiaries was not significant.

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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 position 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 September 30, 2012 or March 31, 2012. Any interest or penalties would be recognized as a component of income tax expense.

Noncontrolling Interests

In March 2012, we formed Atlantic Propane LLC (Atlantic Propane   ), in which we own a 60% member interest. In our June 2012 business combination with High Sierra, we acquired an 80% interest in High Sierra Sertco LLC (Sertco   ). The noncontrolling interest shown in our consolidated statements of operations for the three months and six months ended September 30, 2012 represents the other owners   interests in the income of Atlantic Propane and Sertco.

Non-GAAP Financial Measures

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

	Three Months Ended September 30,		Six Months Ended September 30,	
	2012	2011	2012	2011
	(in thousands)			
EBITDA:				
Net income (loss) attributable to parent equity	$ 10,073	$ (5,395)	$ (14,577)	$ (12,168)
Provision for income taxes	77		536	
Interest expense	8,692	1,012	12,492	2,313
Loss on early extinguishment of debt			5,769	
Depreciation and amortization	14,699	1,901	24,113	3,478
EBITDA	$ 33,541	$ (2,482)	$ 28,333	$ (6,377)
Unrealized (gain) loss on derivative contracts	(9,476)	(1,384)	(11,405)	862
Loss (gain) on sale of assets	(30)	(46)	(23)	(46)
Share-based compensation expense	2,302		2,957	
Adjusted EBITDA	$ 26,337	$ (3,912)	$ 19,862	$ (5,561)

We define EBITDA as net income (loss) attributable to parent equity, 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.

Segment Operating Results for the Three Months Ended September 30, 2012 and 2011

Items Impacting the Comparability of Our Financial Results

Our results of operations for the three months ended September 30, 2012 may not be comparable to our results of operations for the three months ended September 30, 2011, due to the business combinations described above. The results of operations of our natural gas liquids businesses are impacted by seasonality, primarily due to the increase in volumes sold by our retail and wholesale natural gas liquids businesses during the peak heating season of October through March. In addition, propane price fluctuations can

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have a significant impact on our sales volumes. For these and other reasons, our results of operations for the three months ended September 30, 2012 are not necessarily indicative of the results to be expected for the full fiscal year.

Volumes Sold or Processed

The following table summarizes the volume of product sold and wastewater processed for the three months ended September 30, 2012, and 2011, respectively. Gallons sold by our natural gas liquids logistics segment shown in the table below include sales to our retail segment.

	Three Months Ended September 30,			Change Resulting From		
Segment	2012	2011	Retail Combinations	SemStream Combination	High Sierra Combination	Other
				(in thousands)		
Retail propane						
Propane gallons sold	20,057	7,961	12,069			27
Distillate gallons sold	3,024		3,024			
Natural gas liquids logistics						
Propane gallons sold	137,840	109,468		(*)	20,238	8,134
Other natural gas liquids gallons sold	186,795	19,654		(*)	143,432	23,709
Crude oil logistics						
Crude oil barrels sold	7,479				7,479	
Water services						
Barrels of water processed	6,036				6,036	

(*) Although the SemStream combination enabled us to significantly expand our wholesale supply and marketing operations, it is not possible to determine which of the volumes sold subsequent to the combination were specifically attributable to the SemStream combination and which were attributable to our historical wholesale business.

Our retail propane segment s sales volumes for the three months ended September 30, 2012 increased approximately 15.1 million gallons over the 8.0 million gallons sold during the three months ended September 30, 2011. The principal factor driving the increase was our business combinations. The acquired businesses generated approximately 15.1 million gallons of propane and distillate sales during the three months ended September 30, 2012.

Sales of our natural gas liquids logistics segment increased approximately 195.5 million gallons during the three months ended September 30, 2012 as compared to sales of 129.1 million gallons during the three months ended September 30, 2011. The primary reason for this increase in volumes was the acquisition of the operations of High Sierra in a June 2012 merger. An additional reason for the increase in wholesale volumes was the business combination with SemStream in November 2011. This combination facilitated an increase in our wholesale supply and marketing activities, as the acquisition of terminals and leased rail cars gave us more flexibility in the wholesale markets we can serve.

The operations of our crude oil logistics and water services segments began with our June 2012 merger with High Sierra.

Operating Income (Loss) by Segment

Our operating income (loss) by segment is as follows:

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Segment	Three Months Ended September 30, 2012	2011	Change
	(in thousands)		
Retail propane	$ (469)	$ (3,098)	$ 2,629
Natural gas liquids logistics	10,217	273	9,944
Crude oil logistics	10,129		10,129
Water services	4,377		4,377
Corporate and other	(5,669)	(1,703)	(3,966)
Operating income (loss)	$ 18,585	$ (4,528)	$ 23,113

The operating loss within corporate and other increased approximately $4.0 million during the three months ended September 30, 2012 as compared to $1.7 million during the three months ended September 30, 2011. This increase is due in part to $2.2 million of incremental expenses associated with the corporate activities of High Sierra. In addition, corporate general and administrative expenses for the three months ended September 30, 2012 include $2.3 million of compensation expense related to certain restricted units granted in June 2012 pursuant to employee and director compensation programs. The operations of our compressor leasing business are also included within corporate and other .

Retail Propane

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

	Three Months Ended September 30,		Change Resulting From	
	2012	2011	Retail Combinations	Other
	(in thousands)			
Revenues:				
Propane sales	$ 37,939	$ 16,062	$ 25,825	$ (3,948)
Distillate sales	10,859		10,859	
Equipment, water softener, and other sales	4,311	1,680	2,929	(298)
Service and rental revenues	3,894	1,483	2,772	(361)
Total revenues	57,003	19,225	42,385	(4,607)
Expenses:				
Cost of sales - propane	19,296	11,912	13,209	(5,825)
Cost of sales - distillates	7,276		7,276	
Cost of sales - other	3,094	1,296	2,009	(211)
Operating expenses	20,626	6,230	14,342	54
General and administrative expenses	1,993	1,497	1,374	(878)
Depreciation and amortization expense	5,187	1,388	3,625	174
Total expenses	57,472	22,323	41,835	(6,686)
Segment operating loss	$ (469)	$ (3,098)	$ 550	$ 2,079

Revenues. Propane sales for the three months ended September 30, 2012 increased approximately $21.9 million as compared to propane sales of $16.1 million during the three months ended September 30, 2011. The principal reason for the increase in propane sales is the acquisitions of Osterman, Pacer, North American, and Downeast. Excluding the impact of these acquisitions, propane sales were lower during the three months ended September 30, 2012 than during the three months ended September 30, 2011, due primarily to a decline in the average price per gallon sold of $0.50 during the three months ended September 30, 2012, as compared to an average price per gallon sold of $2.02 during the three

months ended September 30, 2011. Also excluding the effect of these acquisitions, volumes sold during the three months ended September 30, 2012 were similar to volumes sold during the three months ended September 30, 2011.

Our acquired Osterman, Pacer, North American, and Downeast operations generated propane sales of $25.8 million during the three months ended September 30, 2012, consisting of approximately 12.1 million gallons sold at an average price of $2.14 per

gallon. The average selling price per gallon for the acquired operations was higher than the average selling price for our historical operations, due in part to the fact that the markets served by the acquired operations are, in general, further away from the primary areas of propane supply than are the markets served by our historical operations.

Our acquired operations generated $10.9 million of revenue from the sales of distillates during the three months ended September 30, 2012, consisting of 3.0 million gallons sold at an average selling price of $3.59 per gallon.

Cost of Sales. Propane cost of sales for the three months ended September 30, 2012 increased approximately $7.4 million as compared to propane cost of sales of $11.9 million during the three months ended September 30, 2011. This increase in propane cost of sales is due primarily to the acquisitions of Osterman, Pacer, North American, and Downeast. Excluding the impact of these acquisitions, propane cost of sales was lower during the three months ended September 30, 2012 than during the three months ended September 30, 2011, due primarily to a decline in the average cost per gallon sold of $0.73 during the three months ended September 30, 2012, as compared to an average price per gallon sold of $1.50 during the three months ended September 30, 2011. Also excluding the effect of these acquisitions, volumes sold during the three months ended September 30, 2012 were similar to volumes sold during the three months ended September 30, 2011.

Our acquired Osterman, Pacer, North American, and Downeast operations generated propane cost of sales of $13.2 million during the three months ended September 30, 2012, consisting of approximately 12.1 million gallons sold at an average cost of $1.09 per gallon. The average cost per gallon for the acquired operations was higher than the average cost for our historical operations, due in part to the fact that the markets served by the acquired operations are, in general, further away from the primary areas of propane supply than are the markets served by our historical operations.

Our acquired operations generated $7.3 million of cost of sales for distillates during the three months ended September 30, 2012, consisting of 3.0 million gallons sold at an average cost of $2.41 per gallon. Cost of distillate sales during the three months ended September 30, 2012 was reduced by approximately $1.8 million of unrealized gains and $0.1 million of realized gains on derivatives.

Operating Expenses. Operating expenses of our retail propane segment increased approximately $14.4 million during the three months ended September 30, 2012 as compared to operating expenses of $6.2 million during the three months ended September 30, 2011. This increase is due primarily to the impact of our Osterman, Pacer, North American, and Downeast acquisitions, the operations of which generated $14.3 million of operating expense during the three months ended September 30, 2012.

General and Administrative Expenses. General and administrative expenses of our retail propane segment increased approximately $0.5 million during the three months ended September 30, 2012 as compared to general and administrative expenses of $1.5 million during the three months ended September 30, 2011. The principal factor causing the increase is the impact of our Osterman, Pacer, North American, and Downeast acquisitions, the operations of which generated $1.4 million of general and administrative expense during the three months ended September 30, 2012.

Depreciation and Amortization. Depreciation and amortization expense of our retail propane segment increased approximately $3.8 million during the three months ended September 30, 2012 as compared to depreciation and amortization expense of $1.4 million during the three

months ended September 30, 2011. The increase is due primarily to the impact of our Osterman, Pacer, North American, and Downeast acquisitions, the operations of which generated $3.6 million of depreciation and amortization expense during the three months ended September 30, 2012.

Operating Loss. Our retail propane segment had an operating loss of approximately $0.5 million during the three months ended September 30, 2012 compared to an operating loss of $3.1 million during the three months ended September 30, 2011. The reduced operating loss is due primarily to improved margins on propane sales. Sales volumes in our retail propane segment are typically lower during the warmer months of the year, and, as a result, it is not unusual for this segment to experience operating losses during the first and second quarters of our fiscal year.

Natural Gas Liquids Logistics

The following table compares the operating results of our natural gas liquids logistics segment for the periods indicated:

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	Three Months Ended September 30, 2012	2011	Change Resulting From High Sierra Combination	Other
	(in thousands)			
Revenues:				
Propane sales	$ 116,980	$ 164,942	$ 15,374	$ (63,336)
Other natural gas liquids sales	244,346	38,169	176,514	29,663
Transportation and other revenues	5,495	443	2,269	2,783
Total revenues	366,821	203,554	194,157	(30,890)
Expenses:				
Cost of sales - propane	111,870	163,128	12,743	(64,001)
Cost of sales - other NGLs	230,098	37,755	163,197	29,146
Cost of sales - storage and other	2,768	102		2,666
Operating expenses	7,128	1,020	4,373	1,735
General and administrative expenses	1,187	964	476	(253)
Depreciation and amortization expense	3,553	313	647	2,593
Total expenses	356,604	203,282	181,436	(28,114)
Segment operating income	$ 10,217	$ 272	$ 12,721	$ (2,776)

Revenues. Exclusive of the operations acquired in our June 2012 merger with High Sierra, revenues from wholesale propane sales decreased approximately $63.3 million during the three months ended September 30, 2012, as compared to $164.9 million during the three months ended September 30, 2011. This resulted from a decrease in the average selling price of $0.64 per gallon, as compared to an average selling price per gallon of $1.51 in the prior year. This decrease in revenue was partially offset by an increase in volume sold of approximately 8.1 million gallons, as compared to 109.5 million gallons sold in the prior year.

During the three months ended September 30, 2012, the operations of High Sierra contributed revenues of $15.4 million from propane sales. This consisted of sales of 20.2 million gallons of propane at an average price of $0.76 per gallon.

Exclusive of the operations acquired in our June 2012 merger with High Sierra, revenues from wholesale sales of other natural gas liquids increased approximately $29.7 million during the three months ended September 30, 2012, as compared to $38.2 million during the three months ended September 30, 2011. This resulted from an increase in volume sold of approximately 23.7 million gallons as compared to 19.7 million gallons in the prior year, partially offset by a decrease in the average selling price of $0.38 per gallon, as compared to $1.94 per gallon in the prior year.

During the three months ended September 30, 2012, the operations of High Sierra contributed revenues of $176.5 million from sales of other natural gas liquids (primarily butane). This resulted from sales of 143.4 million gallons of other natural gas liquids at an average price of $1.23 per gallon.

Exclusive of the operations acquired in our June 2012 merger with High Sierra, the increase in volume sold is due primarily to the SemStream acquisition, which expanded the markets we are able to serve. We believe the decline in average selling prices is due primarily to a greater than normal supply in the marketplace, due in part to low demand during the recent winter heating season as a result of mild weather.

Transportation and other revenues for the three months ended September 30, 2012 relate primarily to fees charged for transporting customer-owned product by rail car.

Cost of Sales. Exclusive of the operations acquired in our June 2012 merger with High Sierra, costs of wholesale propane sales decreased approximately $64.0 million during the three months ended September 30, 2012, as compared to $163.1 million during the three months ended September 30, 2011. This resulted from a decrease in the average cost of $0.65 per gallon, as compared to an average cost per gallon of $1.49 in the prior year. This decrease in cost was partially offset by an increase in volume sold of approximately 8.1 million gallons, as compared to 109.5 million gallons sold in the prior year. Cost of propane sales were increased by $0.9 million during the three months ended September 30, 2012 due to $1.9 million of unrealized losses on derivatives, partially offset by $1.0 million of realized gains on derivatives. These derivatives consisted primarily of propane swaps that we

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entered into as economic hedges against the potential decline in the market value of our propane inventories.

During the three months ended September 30, 2012, the cost of propane sales of the High Sierra operations were $12.7 million. This consisted of sales of 20.2 million gallons of propane at an average price of $0.63 per gallon.

Exclusive of the operations acquired in our June 2012 merger with High Sierra, cost of wholesale sales of other natural gas liquids increased approximately $29.1 million during the three months ended September 30, 2012, as compared to $37.8 million during the three months ended September 30, 2011. This resulted from an increase in volume sold of approximately 23.7 million gallons as compared to 19.7 million gallons in the prior year, partially offset by a decrease in the average cost of $0.38 per gallon, as compared to $1.92 per gallon in the prior year.

During the three months ended September 30, 2012, the cost of other natural gas liquids sales of the High Sierra operations was $163.2 million. This consisted of sales of 143.4 million gallons of other natural gas liquids (primarily butane) at an average price of $1.14 per gallon. Cost of sales associated with the operations acquired from High Sierra during the three months ended September 30, 2012 were reduced by $4.1 million due to $3.7 million of unrealized gains and $0.4 million of realized gains on derivatives.

Other cost of sales for the three months ended September 30, 2012 relates primarily to the cost of leasing rail cars used in the transportation of customer-owned crude oil. We began these operations during the six months ended September 30, 2012.

Operating Expenses. Exclusive of the operations acquired in our June 2012 merger with High Sierra, operating expenses of our wholesale supply and marketing segment increased approximately $1.7 million during the three months ended September 30, 2012 as compared to operating expenses of $1.0 million during the three months ended September 30, 2011. The increase in operating expenses is due primarily to increased compensation and terminal operating expenses resulting from our SemStream combination. During the three months ended September 30, 2012, our natural gas liquids logistics segment incurred $4.4 million of operating expenses related to the operations of High Sierra.

General and Administrative Expenses. Exclusive of the operations acquired in our June 2012 merger with High Sierra, general and administrative expenses of our wholesale supply and marketing segment during the three months ended September 30, 2012 were similar to the expense during the three months ended September 30, 2011. During the three months ended September 30, 2012, our natural gas liquids logistics segment incurred $0.5 million of general and administrative expenses related to the operations of High Sierra.

Depreciation and amortization expense. Exclusive of the operations acquired in our June 2012 merger with High Sierra, depreciation and amortization expense of our wholesale supply and marketing segment increased approximately $2.6 million during the three months ended September 30, 2012, as compared to depreciation and amortization expense of approximately $0.3 million during the three months ended September 30, 2011. This increase is due primarily to depreciation and amortization expense related to assets acquired in the SemStream combination, including depreciation of terminal assets and amortization on customer relationship intangible assets. During the three months ended September 30, 2012, our natural gas liquids logistics segment recorded $0.6 million of depreciation and amortization expense related to assets acquired in our merger with High Sierra.

Operating Income. Our natural gas liquids logistics segment had operating income of approximately $10.2 million during the three months ended September 30, 2012 as compared to operating income of $0.3 million during the three months ended September 30, 2011. The increased operating income is due primarily to the acquisition of the natural gas liquids operations in our June 2012 merger with High Sierra.

Crude Oil Logistics

The following table summarizes the operating results of our crude oil logistics segment for the three months ended September 30, 2012 (amounts in thousands). The operations of our crude oil logistics segment began with our June 19, 2012 combination with High Sierra.

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Revenues:		
Crude oil sales	$	712,119
Crude oil transportation		2,214
Total revenues		714,333
Expenses:		
Cost of sales		696,999
Operating expenses		4,816
General and administrative expenses		709
Depreciation and amortization expense		1,680
Total expenses		704,204
Segment operating income	$	10,129

Revenues. We generated revenue of $712.1 million from crude oil sales during the three months ended September 30, 2012, selling 7.5 million barrels at an average price of $95.22 per barrel. We also generated $2.2 million of revenue from the transportation of crude oil owned by other parties.

Cost of sales. Our cost of crude oil sold was $697.0 million during the three months ended September 30, 2012. We sold 7.5 million barrels at an average cost of $93.19 per barrel. Our cost of sales during the three months ended September 30, 2012 included $9.9 million of realized losses on derivatives, partially offset by $6.7 million of unrealized gains on derivatives.

Other operating expenses. Our crude oil operations generated $5.5 million of operating and general and administrative expenses during the three months ended September 30, 2012. Depreciation and amortization expense, which consists of depreciation on fixed assets and amortization of customer relationship intangible assets, was $1.7 million during the three months ended September 30, 2012.

Water Services

The following table summarizes the operating results of our water services segment for the three months ended September 30, 2012 (amounts in thousands). The operations of our water services segment began with our June 19, 2012 combination with High Sierra.

Revenues:		
Water treatment and disposal	$	12,724
Water transportation		3,086
Total revenues		15,810
Expenses:		
Cost of sales		2,054
Operating expenses		6,154
General and administrative expenses		457
Depreciation and amortization expense		2,768
Total expenses		11,433
Segment operating income	$	4,377

Revenues. Our water services segment generated $12.7 million of processing revenue during the three months ended September 30, 2012, processing 6.0 million gallons of wastewater at an average revenue of $2.11 per barrel. Our water transportation business generated $3.1 million of revenues.

Cost of sales. The cost of sales for our water services segment was $2.1 million for the three months ended September 30, 2012, an average cost of $0.34 per barrel processed. Cost of sales included unrealized losses of $0.8 million and realized losses of $0.4 million on derivatives. A portion of our processing revenue is generated from the sale of recovered hydrocarbons; we enter into derivatives to protect against the risk of a decline in the market price of a portion of the hydrocarbons we expect to recover.

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Other operating expenses. Our water services segment generated $6.6 million of operating and general and administrative expenses during the three months ended September 30, 2012. Depreciation and amortization expense, which consists of depreciation on fixed assets and amortization of customer relationship intangible assets, was $2.8 million during the three months ended September 30, 2012.

Segment Operating Results for the Six Months Ended September 30, 2012 and 2011

Items Impacting the Comparability of Our Financial Results

Our results of operations for the six months ended September 30, 2012 may not be comparable to our results of operations for the six months ended September 30, 2011, due to the business combinations described above. The results of operations of our natural gas liquids businesses are impacted by seasonality, primarily due to the increase in volumes sold by our retail and wholesale natural gas liquids businesses during the peak heating season of October through March. In addition, propane price fluctuations can have a significant impact on our sales volumes. For these and other reasons, our results of operations for the six months ended September 30, 2012 are not necessarily indicative of the results to be expected for the full fiscal year.

Volumes Sold or Processed

The following table summarizes the volume of product sold and wastewater processed for the three months ended September 30, 2012 and 2011, respectively. Gallons sold by our natural gas liquids logistics segment shown in the table below include sales to our retail segment.

Segment	Six Months Ended September 30, 2012	2011	Retail Combinations	Change Resulting From SemStream Combination (in thousands)	High Sierra Combination	Other
Retail propane						
Propane gallons sold	39,327	12,964	26,143			220
Distillate gallons sold	6,273		6,273			
Natural gas liquids logistics						
Propane gallons sold	256,755	212,166		(*)	22,535	22,054
Other natural gas liquids gallons sold	251,750	38,100		(*)	160,241	53,409
Crude oil logistics						
Crude oil barrels sold	8,461				8,461	
Water services						
Barrels of water processed	6,775				6,775	

(*) Although the SemStream combination enabled us to significantly expand our wholesale supply and marketing operations, it is not possible to determine which of the volumes sold subsequent to the combination were specifically attributable to the SemStream combination and which were attributable to our historical wholesale business.

Our retail propane segment s sales volumes for the six months ended September 30, 2012 increased approximately 32.6 million gallons over the 13.0 million gallons sold during the six months ended September 30, 2011. The principal factor driving the increase was our business combinations. The acquired businesses generated approximately 32.4 million gallons of propane and distillate sales during the six months ended September 30, 2012.

Sales of our natural gas liquids logistics segment increased approximately 258.2 million gallons during the six months ended September 30, 2012 as compared to sales of 250.3 million gallons during the six months ended September 30, 2011. The primary reason for this increase in volumes was the acquisition of the operations of High Sierra in a June 2012 merger. An additional reason for the increase in wholesale volumes was the business combination with SemStream in November 2011. The combination facilitated an increase in our wholesale supply and marketing activities, as the acquisition of terminals and leased rail cars gave us more flexibility in the markets we can serve.

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The operations of our crude oil logistics and water services segments began with our June 2012 merger with High Sierra.

Operating Income (Loss) by Segment

Segment	Six Months Ended September 30, 2012	2011	Change
	(in thousands)		
Retail propane	$ (6,640)	$ (6,292)	$ (348)
Natural gas liquids logistics	11,402	(1,393)	12,795
Crude oil logistics	5,819		5,819
Water services	4,547		4,547
Corporate and other	(11,617)	(2,526)	(9,091)
Operating income (loss)	$ 3,511	$ (10,211)	$ 13,722

The operating loss within corporate and other increased approximately $9.1 million during the six months ended September 30, 2012 as compared to the six months ended September 30, 2011. This increase is due in part to $2.8 million of incremental expenses associated with the corporate activities of High Sierra. In addition, corporate general and administrative expenses for the six months ended September 30, 2012 include $3.0 million of compensation expense related to employee and director compensation programs and $3.7 million of expenses related to the acquisition of High Sierra. The operations of our compressor leasing business are also included within corporate and other .

Retail Propane

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

	Six Months Ended September 30, 2012	2011	Change Resulting From Retail Combinations	Other
Revenues:				
Propane sales	$ 77,791	$ 26,256	$ 56,438	$ (4,903)
Distillate sales	22,623		22,623	
Equipment, water softener, and other sales	8,101	3,120	5,285	(304)
Service and rental revenues	7,696	2,701	5,254	(259)
Total revenues	116,211	32,077	89,600	(5,466)
Expenses:				
Cost of sales - propane	42,489	18,892	31,244	(7,647)
Cost of sales - distillates	18,897		18,897	
Cost of sales - other	5,721	2,422	3,543	(244)
Operating expenses	39,068	12,294	26,650	124
General and administrative expenses	4,748	2,306	3,507	(1,065)
Depreciation and amortization expense	11,928	2,455	8,857	616
Total expenses	122,851	38,369	92,698	(8,216)

Segment operating loss	$	(6,640)	$	(6,292)	$	(3,098)	$	2,750

Revenues. Propane sales for the six months ended September 30, 2012 increased approximately $51.5 million as compared to propane sales of $26.3 million during the six months ended September 30, 2011. The principal reason for the increase in propane sales is the acquisitions of Osterman, Pacer, North American, and Downeast. Excluding the impact of these acquisitions, propane sales were lower during the six months ended September 30, 2012 than during the six months ended September 30, 2011, due primarily to a decline in the average price per gallon sold of $0.41 during the six months ended September 30, 2012, as compared to an average price

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per gallon sold of $2.03 during the six months ended September 30, 2011. Excluding the effect of these acquisitions, volumes sold during the six months ended September 30, 2012 were similar to volumes sold during the six months ended September 30, 2011.

Our acquired Osterman, Pacer, North American, and Downeast operations generated propane sales of $56.4 million during the six months ended September 30, 2012, consisting of approximately 26.1 million gallons sold at an average price of $2.16 per gallon. The average selling price per gallon for the acquired operations was higher than the average selling price for our historical operations, due in part to the fact that the markets served by the acquired operations are, in general, further away from the primary areas of propane supply than are the markets served by our historical operations.

Our acquired operations generated $22.6 million of revenue from the sales of distillates during the six months ended September 30, 2012, consisting of 6.3 million gallons sold at an average selling price of $3.61 per gallon.

Cost of Sales. Propane cost of sales for the six months ended September 30, 2012 increased approximately $23.6 million as compared to propane cost of sales of $18.9 million during the six months ended September 30, 2011. This increase in propane cost of sales is due primarily to the acquisitions of Osterman, Pacer, North American, and Downeast. Excluding the impact of these acquisitions, propane cost of sales were lower during the six months ended September 30, 2012 than during the six months ended September 30, 2011, due primarily to a decline in the average cost per gallon sold of $0.60 during the six months ended September 30, 2012, as compared to an average price per gallon sold of $1.46 during the six months ended September 30, 2011. Excluding the effect of these acquisitions, volumes sold during the six months ended September 30, 2012 were similar to volumes sold during the six months ended September 30, 2011.

Our acquired Osterman, Pacer, North American, and Downeast operations generated propane cost of sales of $31.2 million during the six months ended September 30, 2012, consisting of approximately 26.1 million gallons sold at an average cost of $1.20 per gallon. The average cost per gallon for the acquired operations was higher than the average cost for our historical operations, due in part to the fact that the markets served by the acquired operations are, in general, further away from the primary areas of propane supply than are the markets served by our historical operations.

Our acquired operations generated $18.9 million of cost of sales for distillates during the six months ended September 30, 2012, consisting of 6.3 million gallons sold at an average cost of $3.01 per gallon. Cost of distillate sales during the six months ended September 30, 2012 was reduced by approximately $0.9 million of unrealized gains on derivatives.

Operating Expenses. Operating expenses of our retail propane segment increased approximately $26.8 million during the six months ended September 30, 2012 as compared to operating expenses of $12.3 million during the six months ended September 30, 2011. This increase is due primarily to the impact of our Osterman, Pacer, North American, and Downeast acquisitions, the operations of which generated $26.7 million of operating expense during the six months ended September 30, 2012.

General and Administrative Expenses. General and administrative expenses of our retail propane segment increased approximately $2.4 million during the six months ended September 30, 2012 as compared to general and administrative expenses of $2.3 million during the six months ended September 30, 2011. The principal factor causing the increase is the impact of our Osterman, Pacer, North American, and Downeast acquisitions, the operations of which generated $3.5 million of general and administrative expense during the six months ended September 30,

2012.

Depreciation and Amortization. Depreciation and amortization expense of our retail propane segment increased approximately $9.5 million during the six months ended September 30, 2012 as compared to depreciation and amortization expense of $2.5 million during the six months ended September 30, 2011. The increase is due primarily to the impact of our Osterman, Pacer, North American, and Downeast acquisitions, the operations of which generated $8.9 million of depreciation and amortization expense during the six months ended September 30, 2012.

Operating Loss. Our retail propane segment had an operating loss of approximately $6.6 million during the six months ended September 30, 2012 compared to an operating loss of $6.3 million during the six months ended September 30, 2011. The increased operating loss is due primarily to the acquired operations of Osterman, Pacer, North American, and Downeast. Excluding these acquired operations, our retail segment s operating losses were lower during the six months ended September 30, 2012 than during the six months ended September 30, 2011, due primarily to improved margins on propane sales. Sales volumes in our retail propane segment are typically lower during the warmer months of the year, as a result of which it is not unusual for this segment to experience operating losses during the first and second quarters of our fiscal year.

Natural Gas Liquids Logistics

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

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	Six Months Ended September 30,		Change Resulting From	
	2012	2011	High Sierra Combination	Other
	(in thousands)			
Revenues:				
Propane sales	$ 222,824	$ 311,241	$ 17,092	$ (105,509)
Other natural gas liquids sales	339,762	76,706	199,373	63,683
Transportation				

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Total $40,889 $ (762) $96 $(666) $1,334 $41,557

The following table details the amount of ALL by class of loans for the period presented, detailed on the basis of the impairment methodology used by the Company.

	ALL			
	March 31, 2016		December 31, 2015	
	Individually evaluated for impairment	Collectively evaluated for impairment	Individually evaluated for impairment	Collectively evaluated for impairment
	(Dollars in thousands)			
Real estate:				
Non-residential real estate owner occupied.	$444	$ 4,388	$323	$ 4,338
Non-residential real estate other	351	9,860	323	9,598
Residential real estate permanent mortgage	438	2,726	399	2,749
Residential real estate all other	1,926	6,063	839	5,886
Commercial and financial:				
Non-consumer non-real estate	4,539	8,274	3,365	8,389
Consumer non-real estate	396	2,157	445	2,197
Other loans	413	2,377	291	2,357
Acquired loans	—	219	—	167
Total	$8,507	$ 36,064	$5,985	$ 35,681

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The following table details the loans outstanding by class of loans for the period presented, on the basis of the impairment methodology used by the Company.

	Loans March 31, 2016			December 31, 2015		
	Individually evaluated for impairment	Collectively evaluated for impairment	Loans acquired with deteriorated credit quality	Individually evaluated for impairment	Collectively evaluated for impairment	Loans acquired with deteriorated credit quality
	(Dollars in thousands)					
Real estate:						
Non-residential real estate owner occupied	$11,843	$500,245	$ —	$8,619	$494,278	$ —
Non-residential real estate other	9,363	1,130,045	—	8,608	1,102,152	—
Residential real estate permanent mortgage	8,337	321,481	—	7,543	325,058	—
Residential real estate all other	12,453	687,420	—	10,803	665,886	—
Commercial and financial:						
Non-consumer non-real estate	33,780	945,147	—	22,983	961,779	—
Consumer non-real estate	2,596	261,851	—	2,416	266,453	—
Other loans	2,216	160,655	—	2,323	160,293	—
Acquired loans	—	172,940	14,740	—	177,871	14,983
Total	$80,588	$4,179,784	$ 14,740	$63,295	$4,153,770	$ 14,983

Transfers from Loans

Transfers from loans to other real estate owned and repossessed assets are non-cash transactions, and are not included in the statements of cash flow. Transfers from loans to other real estate owned and repossessed assets during the periods presented, are summarized as follows:

	Three Months Ended March 31,	
	2016	2015
	(Dollars in thousands)	
Other real estate owned	$344	$260
Repossessed assets	404	220
Total	$748	$480

(5) INTANGIBLE ASSETS

The following is a summary of intangible assets:

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
	(Dollars in thousands)		
As of March 31, 2016			
Core deposit intangibles	$18,659	$ (6,402)	$12,257
Customer relationship intangibles	5,699	(3,151)	2,548
Mortgage servicing intangibles	525	(237)	288
Total	$24,883	$ (9,790)	$15,093
As of December 31, 2015			
Core deposit intangibles	$20,333	$ (7,586)	$12,747
Customer relationship intangibles	5,699	(3,061)	2,638
Mortgage servicing intangibles	538	(228)	310
Total	$26,570	$ (10,875)	$15,695

The following is a summary of goodwill by business segment:

	Metropolitan Banks	Community Banks	Other Financial Services	Executive, Operations & Support	Consolidated
	(Dollars in thousands)				
Three month ended March 31, 2016					
Balance at beginning and end of period	$8,078	$ 40,050	$ 5,464	$ 450	$ 54,042

Additional information for intangible assets can be found in Note (7) to the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

(6) STOCK-BASED COMPENSATION

The Company adopted a nonqualified incentive stock option plan (the "BancFirst ISOP") in May 1986. The Company amended the BancFirst ISOP to increase the number of shares to be issued under the plan to 3,000,000 shares in May 2013. At March 31, 2016, 5,735 shares were available for future grants. The BancFirst ISOP will terminate on December 31, 2019. The options are exercisable beginning four years from the date of grant at the rate of 25% per year for four years. Options expire at the end of fifteen years from the date of grant. Options outstanding as of March 31, 2016 will become exercisable through the year 2023. The option price must be no less than 100% of the fair value of the stock relating to such option at the date of grant.

In June 1999, the Company adopted the BancFirst Corporation Non-Employee Directors' Stock Option Plan (the "BancFirst Directors' Stock Option Plan"). Each non-employee director is granted an option for 10,000 shares. The Company amended the BancFirst Directors' Stock Option Plan to increase the number of shares to be issued under the plan to 230,000 shares in May 2014. At March 31, 2016, 10,000 shares were available for future grants. The options are exercisable beginning one year from the date of grant at the rate of 25% per year for four years, and expire at the end of fifteen years from the date of grant. Options outstanding as of March 31, 2016 will become exercisable through the year 2020. The option price must be no less than 100% of the fair value of the stock relating to such option at the date of grant.

The Company currently uses newly issued stock to satisfy stock-based exercises, but reserves the right to use treasury stock purchased under the Company's Stock Repurchase Program (the "SRP") in the future.

The following table is a summary of the activity under both the BancFirst ISOP and the BancFirst Directors' Stock Option Plan:

	Options	Wgtd. Avg. Exercise Price	Wgtd. Avg. Remaining Contractual Term	Aggregate Intrinsic Value
	(Dollars in thousands, except option data)			
Three Months Ended March 31, 2016				
Outstanding at December 31, 2015	1,018,149	$ 40.69		

Options granted	15,000	55.15		
Options exercised	(29,600)	29.56		
Options canceled, forfeited, or expired	(5,000)	41.02		
Outstanding at March 31, 2016	998,549	41.24	8.83 Yrs	$ 15,767
Exercisable at March 31, 2016	486,874	33.47	5.55 Yrs	$ 11,471

The following table has additional information regarding options granted and options exercised under both the BancFirst ISOP and the BancFirst Directors' Stock Option Plan:

	Three Months Ended March 31,	
	2016	2015
	(Dollars in thousands except per share data)	
Weighted average grant-date fair value per share of options granted	$11.47	$11.00
Total intrinsic value of options exercised	779	237
Cash received from options exercised	875	244
Tax benefit realized from options exercised	301	92

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The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model and is based on certain assumptions including risk-free rate of return, dividend yield, stock price volatility and the expected term. The fair value of each option is expensed over its vesting period.

The following table is a summary of the Company's recorded stock-based compensation expense:

	Three Months Ended March 31,	
	2016	2015
	(Dollars in thousands)	
Stock-based compensation expense	$451	$464
Tax benefit	174	180
Stock-based compensation expense, net of tax	$277	$284

The Company will continue to amortize the unearned stock-based compensation expense over the remaining vesting period of approximately seven years. The following table shows the unearned stock-based compensation expense:

	March 31, 2016
	(Dollars in thousands)
Unearned stock-based compensation expense	$ 3,834

The following table shows the assumptions used for computing stock-based compensation expense under the fair value method during the periods presented:

	Three Months Ended March 31,	
	2016	2015
Risk-free interest rate	1.91 to 2.02%	1.83 to 1.96%
Dividend yield	2.00%	2.00%
Stock price volatility	20.41 to 20.64%	18.23 to 18.50%
Expected term	10 Yrs	10 Yrs

The risk-free interest rate is determined by reference to the spot zero-coupon rate for the U.S. Treasury security with a maturity similar to the expected term of the options. The dividend yield is the expected yield for the expected term. The stock price volatility is estimated from the recent historical volatility of the Company's stock. The expected term is estimated from the historical option exercise experience.

In May 1999, the Company adopted the BancFirst Corporation Directors' Deferred Stock Compensation Plan (the "BancFirst Deferred Stock Compensation Plan"). The Company amended the BancFirst Deferred Stock Compensation Plan to increase the number of shares to be issued under the plan to 91,110 shares in May 2014. Under the plan, directors and members of the community advisory boards of the Company and its subsidiaries may defer up to 100%

of their board fees. They are credited for each deferral with a number of stock units based on the current market price of the Company's stock, which accumulate in an account until such time as the director or community board member terminates serving as a board member. Shares of common stock of the Company are then distributed to the terminating director or community board member based upon the number of stock units accumulated in his or her account. The number of shares of common stock distributed from the BancFirst Deferred Stock Compensation Plan was 758 during the three months ended March 31, 2016.

A summary of the accumulated stock units is as follows:

	March 31, 2016	December 31, 2015
Accumulated stock units	67,558	66,376
Average price	$40.17	$ 39.64

(7) STOCKHOLDERS' EQUITY

In November 1999, the Company adopted a Stock Repurchase Program (the "SRP"). The SRP may be used as a means to increase earnings per share and return on equity, to purchase treasury stock for the exercise of stock options or for distributions under the Deferred Stock Compensation Plan, to provide liquidity for optionees to dispose of stock from exercises of their stock options and to provide liquidity for stockholders wishing to sell their stock. All shares repurchased under the SRP have been retired and not held

as treasury stock. The timing, price and amount of stock repurchases under the SRP may be determined by management within the limitations of a Board approved share buyback program.

The following table is a summary of the shares under the program:

	Three Months Ended March 31,	
	2016	2015
Number of shares repurchased	100,000	—
Average price of shares repurchased	$55.23	—
Shares remaining to be repurchased	66,276	194,723

The Company and BancFirst are subject to risk-based capital guidelines issued by the Board of Governors of the Federal Reserve System and the Federal Deposit Insurance Corporation (“FDIC”). These guidelines are used to evaluate capital adequacy and involve both quantitative and qualitative evaluations of the Company’s and BancFirst’s assets, liabilities and certain off-balance-sheet items calculated under regulatory practices. Failure to meet the minimum capital requirements can initiate certain mandatory or discretionary actions by the regulatory agencies that could have a direct material effect on the Company’s financial statements. Management believes that as of March 31, 2016, the Company and BancFirst met all capital adequacy requirements to which they are subject. The actual and required capital amounts and ratios are shown in the following table:

	Actual		Required For Capital Adequacy Purposes		With Capital Conservation Buffer		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Dollars in thousands)							
As of March 31, 2016:								
Total Capital								
(to Risk Weighted Assets)-								
BancFirst Corporation	$673,104	14.40%	$373,849	8.00%	$403,056	8.625%	N/A	N/A
BancFirst	616,209	13.20%	373,346	8.00%	402,513	8.625%	$466,682	10.00%
Common Equity Tier 1 Capital								
(to Risk Weighted Assets)-								
BancFirst Corporation	$597,533	12.79%	$210,290	4.50%	$239,497	5.125%	N/A	N/A
BancFirst	551,638	11.82%	210,007	4.50%	239,174	5.125%	$303,343	6.50%
Tier 1 Capital								
(to Risk Weighted Assets)-								
BancFirst Corporation	$628,533	13.45%	$280,387	6.00%	$309,594	6.625%	N/A	N/A
BancFirst	571,638	12.25%	280,009	6.00%	309,177	6.625%	$373,346	8.00%
Tier 1 Capital								
(to Total Assets)-								
BancFirst Corporation	$628,533	9.51%	$264,328	4.00%	N/A	N/A	N/A	N/A
BancFirst	571,638	8.68%	263,405	4.00%	N/A	N/A	$329,256	5.00%

As of March 31, 2016, the most recent notification from the Federal Reserve Bank of Kansas City and the FDIC categorized BancFirst as "well capitalized" under the regulatory framework from prompt corrective action. The Company's trust preferred securities have continued to be included in Tier 1 capital as the Company's total assets do not exceed $15 billion. There are no conditions or events since the most recent notifications of BancFirst's capital category that management believes would materially change its category under capital requirements existing as of the report date.

Basel III Capital Rules

Under the Basel III Capital Rules, in order to avoid limitations on capital distributions, including dividend payments and certain discretionary bonus payments to executive officers, a banking organization must hold a capital conservation buffer composed of CET1 capital above its minimum risk-based capital requirements. The implementation of the capital conservation buffer began on January 1, 2016 at the 0.625% level and will be phased in over a four-year period (increasing by that amount on each subsequent January 1, until it reaches 2.5% on January 1, 2019).

Management believes that, as of March 31, 2016, the Company and BancFirst would meet all capital adequacy requirements under the Basel III Capital Rules on a fully phased-in basis as if such requirements were currently in effect.

(8) NET INCOME PER COMMON SHARE

Basic and diluted net income per common share based on weighted-average shares outstanding are calculated as follows:

	Income	Shares	Per Share
	(Numerator)	(Denominator)	Amount
	(Dollars in thousands, except per share data)		
Three Months Ended March 31, 2016			
Basic			
Income available to common stockholders	$16,579	15,534,416	$ 1.07
Dilutive effect of stock options	—	281,955	
Diluted			
Income available to common stockholders plus assumed exercises of stock options	$16,579	15,816,371	$ 1.05
Three Months Ended March 31, 2015			
Basic			
Income available to common stockholders	$16,259	15,507,346	$ 1.05
Dilutive effect of stock options	—	331,202	
Diluted			
Income available to common stockholders plus assumed exercises of stock options	$16,259	15,838,548	$ 1.03

The following table shows the number and average exercise price of options that were excluded from the computation of diluted net income per common share for each period because the options' exercise prices were greater than the average market price of the common shares:

	Shares	Average Exercise Price
Three Months Ended March 31, 2016	236,451	$ 58.59
Three Months Ended March 31, 2015	128,667	57.68

(9) FAIR VALUE MEASUREMENTS

Accounting standards define fair value as the price that would be received to sell an asset or the price paid to transfer a liability in the principal or most advantageous market available to the entity in an orderly transaction between market participants on the measurement date.

FASB ASC Topic 820 establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

- Level 1 Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset and liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose values are determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category includes certain impaired loans, foreclosed assets, other real estate, goodwill and other intangible assets.

Financial Assets and Financial Liabilities Measured at Fair Value on a Recurring Basis

A description of the valuation methodologies and key inputs used to measure financial assets and financial liabilities at fair value on a recurring basis, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below. These valuation methodologies were applied to the following categories of the Company’s financial assets and financial liabilities.

Securities Available for Sale

Securities classified as available for sale are reported at fair value. U.S. Treasuries are valued using Level 1 inputs. Other securities available for sale including U.S. federal agencies, registered mortgage backed securities and state and political subdivisions are valued using prices from an independent pricing service utilizing Level 2 data. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond's terms and conditions, among other things. The Company also invests in private label mortgage backed securities and equity securities classified as available for sale for which observable information is not readily available. These securities are reported at fair value utilizing Level 3 inputs. For these securities, management determines the fair value based on replacement cost, the income approach or information provided by outside consultants or lead investors.

The Company reviews the prices for Level 1 and Level 2 securities supplied by the independent pricing service for reasonableness and to ensure such prices are aligned with traditional pricing matrices. In general, the Company does not purchase investment portfolio securities that are esoteric or that have complicated structures. The Company's entire portfolio consists of traditional investments including U.S. Treasury obligations, federal agency mortgage pass-through securities, general obligation municipal bonds and a small amount of municipal revenue bonds. Pricing for such instruments is fairly generic and is easily obtained. For in-state bond issues that have relatively low issue sizes and liquidity, the Company utilizes the same parameters for pricing mentioned in the preceding paragraph adjusted for the specific issue. From time to time, the Company will validate, on a sample basis, prices supplied by the independent pricing service by comparison to prices obtained from third party sources.

Derivatives

Derivatives are reported at fair value utilizing Level 2 inputs. The Company obtains dealer and market quotations to value its oil and gas swaps and options. The Company utilizes dealer quotes and observable market data inputs to substantiate internal valuation models.

Loans Held For Sale

The Company originates mortgage loans to be sold. At the time of origination, the acquiring bank has already been determined and the terms of the loan, including interest rate, have already been set by the acquiring bank, allowing the Company to originate the loan at fair value. Mortgage loans are generally sold within 30 days of origination. Loans held for sale are valued using Level 2 inputs. Gains or losses recognized upon the sale of the loans are determined on a specific identification basis.

The following table summarizes financial assets and financial liabilities measured at fair value on a recurring basis as of the periods presented, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
	(Dollars in thousands)			
March 31, 2016				
Securities available for sale:				
U.S. Treasury	$280,715	$—	$—	$ 280,715
U.S. federal agencies	—	128,854	—	128,854
Mortgage-backed securities	—	6,493	14,816	21,309

States and political subdivisions	—	49,292	—	49,292
Other securities	—	3,432	6,005	9,437
Derivative assets	—	1,210	—	1,210
Derivative liabilities	—	605	—	605
Loans held for sale	—	7,626	—	7,626
December 31, 2015				
Securities available for sale:				
U.S. Treasury	$329,696	$—	$—	$ 329,696
U.S. federal agencies	—	131,896	—	131,896
Mortgage-backed securities	—	7,039	14,816	21,855
States and political subdivisions	—	50,920	—	50,920
Other securities	—	3,485	6,308	9,793
Derivative assets	—	1,946	—	1,946
Derivative liabilities	—	989	—	989
Loans held for sale	—	13,725	—	13,725

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The changes in Level 3 assets measured at estimated fair value on a recurring basis during the periods presented were as follows:

	Three Months Ended March 31,	
	2016	2015
	(Dollars in thousands)	
Balance at the beginning of the year	$21,124	$28,459
Purchases, issuances and settlements	(4)	(744)
Sales	(299)	(1,729)
Gains included in earnings	100	1,729
Total unrealized (losses) gains	(100)	(589)
Balance at the end of the period	$20,821	$27,126

The Company's policy is to recognize transfers in and transfers out of Levels 1, 2 and 3 as of the end of the reporting period. During the three months ended March 31, 2016 and 2015, the Company did not transfer any securities between levels in the fair value hierarchy.

Financial Assets and Financial Liabilities Measured at Fair Value on a Nonrecurring Basis

Certain financial assets and financial liabilities are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). These financial assets and financial liabilities are reported at fair value utilizing Level 3 inputs.

Impaired loans are reported at the fair value of the underlying collateral if repayment is dependent on liquidation of the collateral. In no case does the fair value of an impaired loan exceed the fair value of the underlying collateral. The impaired loans are adjusted to fair value through a specific allocation of the allowance for loan losses or a direct charge-down of the loan.

Foreclosed assets, upon initial recognition, are measured and adjusted to fair value through a charge-off to the allowance for possible loan losses based upon the fair value of the foreclosed asset.

Other real estate owned is revalued at fair value subsequent to initial recognition, with any losses recognized in net expense from other real estate owned.

The following table summarizes assets measured at fair value on a nonrecurring basis and the related losses recognized during the period:

	Total Fair Value Level 3	Losses
	(Dollars in thousands)	
As of and for the Year-to-date Period Ended March 31, 2016		
Impaired loans (less specific allowance)	$ 28,653	$ —
Foreclosed assets	281	2

Other real estate owned	3,963	—
As of and for the Year-to-date Period Ended December 31, 2015		
Impaired loans (less specific allowance)	$ 44,399	$ —
Foreclosed assets	230	—
Other real estate owned	7,984	128

Estimated Fair Value of Financial Instruments

The Company is required under current authoritative accounting guidance to disclose the estimated fair value of their financial instruments that are not recorded at fair value. For the Company, as for most financial institutions, substantially all of its assets and liabilities are considered financial instruments. A financial instrument is defined as cash, evidence of an ownership interest in an entity or a contract that creates a contractual obligation or right to deliver or receive cash or another financial instrument from a second entity. The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

Cash and Cash Equivalents Include: Cash and Due from Banks and Interest-Bearing Deposits

The carrying amount of these short-term instruments is a reasonable estimate of fair value.

Securities Held for Investment

For securities held for investment, which are generally traded in secondary markets, fair values are based on quoted market prices or dealer quotes, if available. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities making adjustments for credit or liquidity if applicable.

Loans

For certain homogeneous categories of loans, such as some residential mortgages, fair values are estimated using the quoted market prices for securities backed by similar loans, adjusted for differences in loan characteristics. The fair values of other types of loans are estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities.

Deposits

The fair values of transaction and savings accounts are the amounts payable on demand at the reporting date. The fair values of fixed-maturity certificates of deposit are estimated using the rates currently offered for deposits of similar remaining maturities.

Short-term Borrowings

The amounts payable on these short-term instruments are reasonable estimates of fair value.

Junior Subordinated Debentures

The fair values of junior subordinated debentures are estimated using the rates that would be charged for junior subordinated debentures of similar remaining maturities.

Loan Commitments and Letters of Credit

The fair values of commitments are estimated using the fees currently charged to enter into similar agreements, taking into account the terms of the agreements. The fair values of letters of credit are based on fees currently charged for similar agreements.

The estimated fair values of the Company’s financial instruments that are reported at amortized cost in the Company’s consolidated balance sheets, segregated by the level of valuation inputs within the fair value hierarchy utilized to measure fair value, are as follows:

	March 31, 2016 Carrying		December 31, 2015 Carrying	
	Amount	Fair Value	Amount	Fair Value
	(Dollars in thousands)			
FINANCIAL ASSETS				

Level 2 inputs:				
Cash and cash equivalents	$1,668,325	$1,668,325	$1,598,177	$1,598,177
Securities held for investment	7,879	7,934	8,289	8,350
Level 3 inputs:				
Securities held for investment	500	500	500	500
Loans, net of allowance for loan losses	4,230,541	4,286,603	4,190,382	4,222,153
FINANCIAL LIABILITIES				
Level 2 inputs:				
Deposits	6,010,872	6,061,676	5,973,538	6,028,012
Short-term borrowings	1,300	1,300	500	500
Junior subordinated debentures	31,959	34,886	31,959	33,793
OFF-BALANCE SHEET FINANCIAL INSTRUMENTS				
Loan commitments		1,634		1,681
Letters of credit		443		464

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Non-financial Assets and Non-financial Liabilities Measured at Fair Value

The Company has no non-financial assets or non-financial liabilities measured at fair value on a recurring basis. Certain non-financial assets and non-financial liabilities measured at fair value on a nonrecurring basis include intangible assets (excluding mortgage service rights, which are valued semi-annually) and other non-financial long-lived assets measured at fair value and adjusted for impairment. These items are evaluated at least annually for impairment. The overall levels of non-financial assets and non-financial liabilities measured at fair value on a nonrecurring basis were not considered to be significant to the Company at March 31, 2016 or December 31, 2015.

(10) DERIVATIVE FINANCIAL INSTRUMENTS

The Company enters into oil and gas swaps and options contracts to accommodate the business needs of its customers. Upon the origination of an oil or gas swap or option contract with a customer, the Company simultaneously enters into an offsetting contract with a counterparty to mitigate the exposure to fluctuations in oil and gas prices. These derivatives are not designated as hedged instruments and are recorded on the Company's consolidated balance sheet at fair value.

The Company utilizes dealer quotations and observable market data inputs to substantiate internal valuation models. The notional amounts and estimated fair values of oil and gas derivative positions outstanding are presented in the following table:

Oil and Natural Gas Swaps and Options	Notional Units	March 31, 2016 Notional Amount	March 31, 2016 Estimated Fair Value	December 31, 2015 Notional Amount	December 31, 2015 Estimated Fair Value
		(Notional amounts and dollars in thousands)			
Oil					
Derivative assets	Barrels	98	$ 107	86	$ 604
Derivative liabilities	Barrels	(98)	(5)	(86)	(378)
Natural Gas					
Derivative assets	MMBTUs	3,230	1,103	3,920	1,342
Derivative liabilities	MMBTUs	(3,230)	(600)	(3,920)	(611)
Total Fair Value	Included in				
Derivative assets	Other assets		1,210		1,946
Derivative liabilities	Other liabilities		(605)		(989)

The following table is a summary of the Company's recognized income related to the activity, which was included in other noninterest income:

	Three Months Ended March 31,	
	2016	2015
	(Dollars in thousands)	
Derivative income	$ 5	$ 155

The Company’s credit exposure on oil and gas swaps and options varies based on the current market prices of oil and natural gas. Other than credit risk, changes in the fair value of customer positions will be offset by equal and opposite changes in the counterparty positions. The net positive fair value of the contracts is the profit derived from the activity and is unaffected by market price movements. The Company’s share of total profit is approximately 35%.

Customer credit exposure is managed by strict position limits and is primarily offset by first liens on production while the remainder is offset by cash. Counterparty credit exposure is managed by selecting highly rated counterparties (rated A- or better by Standard and Poor’s) and monitoring market information.

The following table is a summary of the Company’s net credit exposure relating to oil and gas swaps and options with bank counterparties:

	March 31, 2016	December 31, 2015
	(Dollars in thousands)	
Credit exposure	$ —	$ 37

Balance Sheet Offsetting

Derivatives may be eligible for offset in the consolidated balance sheet and/or subject to master netting arrangements. The Company's derivative transactions with upstream financial institution counterparties and bank customers are generally executed under International Swaps and Derivative Association ("ISDA") master agreements which include "right of set-off" provisions. In such cases there is generally a legally enforceable right to offset recognized amounts and there may be an intention to settle such amounts on a net basis. Nonetheless, the Company does not generally offset such financial instruments for financial reporting purposes.

(11) SEGMENT INFORMATION

The Company evaluates its performance with an internal profitability measurement system that measures the profitability of its business units on a pre-tax basis. The four principal business units are metropolitan banks, community banks, other financial services and executive, operations and support. Metropolitan and community banks offer traditional banking products such as commercial and retail lending and a full line of deposit accounts. Metropolitan banks consist of banking locations in the metropolitan Oklahoma City and Tulsa areas. Community banks consist of banking locations in communities throughout Oklahoma. Other financial services are specialty product business units including guaranteed small business lending, residential mortgage lending, trust services, securities brokerage, electronic banking and insurance. The executive, operations and support groups represent executive management, operational support and corporate functions that are not allocated to the other business units.

The results of operations and selected financial information for the four business units are as follows:

	Metropolitan Banks	Community Banks	Other Financial Services	Executive, Operations & Support	Eliminations	Consolidated
	(Dollars in thousands)					
Three Months Ended March 31, 2016						
Net interest income (expense)	$15,843	$33,122	$1,416	$(405)	$—	$49,976
Noninterest income	3,788	13,596	7,479	17,678	(16,924)	25,617
Income before taxes	9,348	19,094	3,114	10,500	(16,857)	25,199
Three Months Ended March 31, 2015						
Net interest income (expense)	$15,400	$29,055	$1,618	$(447)	$—	$45,626
Noninterest income	3,457	12,326	8,727	17,292	(16,506)	25,296
Income before taxes	9,889	16,407	5,007	9,804	(16,442)	24,665
Total Assets:						
March 31, 2016	$2,307,503	$4,401,449	$127,748	$628,843	$(724,605)	$6,740,938
December 31, 2015	2,277,870	4,379,205	128,697	624,428	(717,371)	6,692,829

The financial information for each business unit is presented on the basis used internally by management to evaluate performance and allocate resources. The Company utilizes a transfer pricing system to allocate the benefit or cost of funds provided or used by the various business units. Certain services provided by the support group to other business units, such as item processing, are allocated at rates approximating the cost of providing the services. Eliminations are

adjustments to consolidate the business units and companies. Capital expenditures are generally charged to the business unit using the asset.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion and analysis presents factors that the Company believes are relevant to an assessment and understanding of the Company’s consolidated financial position and results of operations. This discussion and analysis should be read in conjunction with the Company’s December 31, 2015 consolidated financial statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2015 and the Company’s consolidated financial statements and the related Notes included in Item 1.

FORWARD LOOKING STATEMENTS

The Company may make forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 with respect to earnings, credit quality, corporate objectives, interest rates and other financial and business matters. Forward-looking statements include estimates and give management’s current expectations or forecasts of future events. The Company cautions readers that these forward-looking statements are subject to numerous assumptions, risks and uncertainties, including economic conditions; the performance of financial markets and interest rates; legislative and regulatory actions and reforms; competition; as well as other factors, all of which change over time. Examples of forward-looking statements include, but are not limited to: (i) projections of revenues, expenses, income or loss, earnings or loss per share, the payment or nonpayment of dividends, capital structure and other financial items; (ii) statements of plans, objectives and expectations, including those relating to products or services; (iii) statements of future economic performance; and (iv) statements of assumptions underlying such statements. Words such as “believes”, “anticipates”, “expects”, “intends”, “targeted”, “continue”, “remain”, “will”, “should”, “may” and other similar expressions are intended to identify forward-lookir statements but are not the exclusive means of identifying such statements.

Forward-looking statements involve risks and uncertainties that may cause actual results to differ materially from those in such statements. Factors that could cause actual results to differ from those discussed in the forward-looking statements include, but are not limited to:

- Local, regional, national and international economic conditions and the impact they may have on the Company and its customers and the Company’s assessment of that impact.
- Changes in the mix of loan geographies, sectors and types or the level of non-performing assets and charge-offs.
- Changes in estimates of future reserve requirements based upon the periodic review thereof under relevant regulatory and accounting requirements.
- Inflation, interest rate, crude oil price, securities market and monetary fluctuations.
- The effect of changes in laws and regulations (including laws and regulations concerning taxes, banking, securities and insurance) with which the Company must comply.
- Impairment of the Company’s goodwill or other intangible assets.
- Changes in consumer spending, borrowing and savings habits.
- Changes in the financial performance and/or condition of the Company’s borrowers.
- Technological changes.
- Acquisitions and integration of acquired businesses.
- The effect of changes in accounting policies and practices, as may be adopted by the regulatory agencies, as well as the Public Company Accounting Oversight Board, the Financial Accounting Standards Board and other accounting standard setters.
- The Company’s success at managing the risks involved in the foregoing items.

Actual results may differ materially from forward-looking statements.

SUMMARY

BancFirst Corporation's net income for the first quarter of 2016 was $16.6 million, compared to $16.3 million for the first quarter of 2015. Diluted net income per common share was $1.05 and $1.03 for the first quarter of 2016 and 2015, respectively.

The Company's net interest income for the first quarter of 2016 increased to $50.0 million, compared to $45.6 million for the first quarter of 2015. The net interest margin for the quarter was 3.25%, compared to 3.07% a year ago. Internal loan growth, acquired loans from the Company's October 2015 acquisition and the increase in the Fed Fund rate of 25 basis points during the fourth quarter of 2015 contributed to the higher net interest income and margin in 2016. The Company's provision for loan losses for the first quarter of 2016 increased to $4.1 million, compared to $1.3 million a year ago. The increase in the provision was primarily due to downgrades of a few commercial loans which were impacted by the economic effects in Oklahoma from low energy prices. Net charge-offs for the quarter were only 0.03% of average loans, compared to 0.01% for the first quarter of 2015. Noninterest income for the quarter totaled $25.6 million, compared to $25.3 million last year. Noninterest expense for the quarter totaled $46.3 million, compared to $44.9 million last year, primarily due to salary increases from raises and the Company's acquisition in the fourth quarter of 2015. The increase in noninterest expenses was partially offset by gains on the sale of other real estate owned totaling $1.2 million. The Company's effective tax rate was 34.2% compared to 34.1% for the first quarter of 2015.

At March 31, 2016, the Company's total assets were $6.7 billion, largely unchanged from December 31, 2015. Securities decreased $55.0 million to a total of $498.0 million due to large maturities during the quarter. Loans totaled $4.3 billion, up slightly from December 31, 2015. Deposits totaled $6.0 billion, marginally above the December 31, 2015 total. The Company's total stockholders' equity was $662.7 million, an increase of $7.2 million, or 1.1%, over December 31, 2015.

Asset quality remained strong during the first quarter of 2016. Nonperforming and restructured assets were 0.55% of total assets at March 31, 2016 compared to 0.83% at December 31, 2015. The decrease in nonperforming and restructured assets was largely due to one relationship that was removed from a troubled debt restructuring status due to sustained improvement in financial condition, performance and the commercially reasonable nature of its structure. Also contributing to the decrease in nonperforming assets were sales of other real estate owned. The allowance to total loans was 1.04%, compared to 0.98% at year-end 2015. The allowance to nonperforming and restructured loans was 136.4% compared to 88.5% at year-end 2015.

During the quarter, the Company repurchased 100,000 shares of its common stock at an average price of $55.23 under the Company's stock repurchase program.

On October 8, 2015, the Company completed the acquisition of CSB Bancshares, Inc. and its subsidiary bank, Bank of Commerce, with locations in Yukon, Mustang, and El Reno, Oklahoma. Bank of Commerce had approximately $196 million in total assets, $148 million in loans, $170 million in deposits, and $22 million in equity capital. The bank was merged into BancFirst during the fourth quarter of 2015.

Oil prices continued to be low during the first quarter of 2016, which had a dampening effect on the Oklahoma economy. Any continued impact from low oil prices on Oklahoma's economy and the Company's financial results could become more apparent in future periods.

FUTURE APPLICATION OF ACCOUNTING STANDARDS

See Note (1) of the Notes to Consolidated Financial Statements for a discussion of recently issued accounting pronouncements.

SEGMENT INFORMATION

See Note (11) of the Notes to Consolidated Financial Statements for disclosures regarding business segments.

RESULTS OF OPERATIONS

Selected income statement data and other selected data for the comparable periods were as follows:

BANCFIRST CORPORATION

SELECTED CONSOLIDATED FINANCIAL DATA

(Unaudited)

(Dollars in thousands, except per share data)

	Three Months Ended March 31, 2016	2015
Income Statement Data		
Net interest income	$49,976	$45,626
Provision for loan losses	4,103	1,334
Securities transactions	100	1,729
Total noninterest income	25,617	25,296
Salaries and employee benefits	29,357	27,513
Total noninterest expense	46,291	44,923
Net income	16,579	16,259
Per Common Share Data		
Net income – basic	$1.07	$1.05
Net income – diluted	1.05	1.03
Cash dividends	0.36	0.34
Performance Data		
Return on average assets	1.00 %	1.01 %
Return on average stockholders' equity	10.05	10.65
Cash dividend payout ratio	33.73	32.43
Net interest spread	3.09	2.93
Net interest margin	3.25	3.07
Efficiency ratio	61.24	63.34
Net charge-offs to average loans	0.03	0.02

Net Interest Income

For the three months ended March 31, 2016, net interest income, which is the Company's principal source of operating revenue, increased to $50.0 million compared to $45.6 million for the three months ended March 31, 2015. Net interest margin is the ratio of taxable-equivalent net interest income to average earning assets for the period. The Company's net interest margin for the quarter was 3.25% compared to 3.07% a year ago. Internal loan growth, acquired loans from the Company's October 2015 acquisition and the increase in the Fed Fund rate of 25 basis points during the fourth quarter of 2015 contributed to the higher net interest income and margin in 2016. If interest rates and/or loan volume do not increase, management would expect its net interest margin to generally remain at current levels.

Provision for Loan Losses

The Company’s provision for loan loss for the first quarter of 2016 increased to $4.1 million compared to $1.3 million a year ago. The increase in the provision was primarily due to downgrades of a few commercial loans which were impacted by the economic effect in Oklahoma from low energy prices. The Company establishes an allowance as an estimate of the probable inherent losses in the loan portfolio at the balance sheet date. Management believes the allowance for loan losses is appropriate based upon management’s best estimate of probable losses that have been incurred within the existing loan portfolio. Should any of the factors considered by management in evaluating the appropriate level of the allowance for loan losses change, the Company’s estimate of probable loan losses could also change, which could affect the amount of future provisions for loan losses. Net loan charge-offs were $1.2 million for the first quarter of 2016, compared to $666,000 for the first quarter of 2015. The rate of net charge-offs to average total loans, as presented in the preceding table, continues to be at a very low level.

Noninterest Income

Noninterest income totaled $25.6 million for the first quarter of 2016 compared to $25.3 million for the first quarter of 2015.

The Company had fees from debit card usage totaling $5.9 million and $5.4 million during the three month periods ended March 31, 2016 and 2015, respectively. This represents 23.1% and 21.5% of the Company’s noninterest income for the three month periods ended March 31, 2016 and 2015, respectively.

Noninterest Expense

For the three months ended March 31, 2016, noninterest expense totaled $46.3 million, compared to $44.9 million for the three months ended March 31, 2015. The increase in noninterest expense for the first quarter of 2016 was primarily due to salary increases from raises and the Company’s acquisition in the fourth quarter of 2015. This was partially offset by gains on sale of other real estate owned totaling $1.2 million.

Income Taxes

The Company’s effective tax rate on income before taxes was 34.2% for the first quarter of 2016, compared to 34.1% for the first quarter of 2015.

FINANCIAL POSITION

BANCFIRST CORPORATION

SELECTED CONSOLIDATED FINANCIAL DATA

(Dollars in thousands, except per share data)

	March 31, 2016 (unaudited)		December 31, 2015	
Balance Sheet Data				
Total assets	$6,740,938		$6,692,829	
Total loans (net of unearned interest)	4,282,738		4,245,773	
Allowance for loan losses	44,571		41,666	
Securities	497,986		552,949	
Deposits	6,010,872		5,973,358	
Stockholders' equity	662,661		655,510	
Book value per share	42.68		42.03	
Tangible book value per share	38.22		37.56	
Average loans to deposits (year-to-date)	71.28	%	67.34	%
Average earning assets to total assets (year-to-date)	92.88		93.02	
Average stockholders’ equity to average assets (year-to-date)	9.92		9.76	
Asset Quality Ratios				
Nonperforming and restructured loans to total loans	0.76	%	1.11	%
Nonperforming and restructured assets to total assets	0.55		0.83	
Allowance for loan losses to total loans	1.04		0.98	
Allowance for loan losses to nonperforming and restructured loans	136.42		88.50	

Cash and Interest-Bearing Deposits with Banks

The aggregate of cash and due from banks and interest-bearing deposits with banks increased $70.1 million, or 4.39% to $1.7 billion, from December 31, 2015 to March 31, 2016. This increase was due to large maturities of securities during the quarter and a marginal increase in deposits.

Securities

At March 31, 2016, total securities decreased $55.0 million, or 9.9% compared to December 31, 2015. The size of the Company's securities portfolio is determined by the Company's liquidity and asset/liability management. The net unrealized gain on securities available for sale, before taxes, was $3.4 million at March 31, 2016, compared to an unrealized gain of $2.5 million at December 31, 2015. These unrealized gains are included in the Company's stockholders' equity as accumulated other comprehensive income, net of income tax, in the amounts of $2.1 million and $1.5 million, respectively.

Loans (Including Acquired Loans)

At March 31, 2016, loans totaled $4.3 billion, up slightly from December 31, 2015. The increase in 2016 was primarily driven by an increase in commercial real estate loans located in the Company's metropolitan markets.

Allowance for Loan Losses/Fair Value Adjustments on Acquired Loans

At March 31, 2016, the allowance for loan losses to total loans represented 1.04% of total loans, compared to 0.98% at December 31, 2015.

The fair value adjustment on acquired loans consists of an interest rate component to adjust the effective rates on the loans to market rates and a credit component to adjust for estimated credit exposures in the acquired loans. The credit component of the adjustment was $3.0 million at March 31, 2016 and $3.3 million at December 31, 2015 while the acquired loans outstanding were $187.7 million and $192.9 million, respectively.

Nonperforming and Restructured Assets

Nonperforming and restructured assets totaled $36.9 million at March 31, 2016, compared to $55.3 million at December 31, 2015. The Company's level of nonperforming and restructured assets has continued to be relatively low. The decrease in nonperforming and restructured assets in 2016 was due to one relationship that was re-evaluated and removed from restructured loans due to sustained improvement in financial condition, performance and the commercially reasonable nature of its structure.

Nonaccrual loans totaled $31.0 million at March 31, 2016, compared to $30.1 million at the end of 2015. The Company's nonaccrual loans are primarily commercial and real estate loans. Nonaccrual loans negatively impact the Company's net interest margin. A loan is placed on nonaccrual status when, in the opinion of management, the future collectability of interest or principal or both is in serious doubt. Interest income is recognized on certain of these loans on a cash basis if the full collection of the remaining principal balance is reasonably expected. Otherwise, interest income is not recognized until the principal balance is fully collected. Total interest income which was not accrued on nonaccrual loans outstanding, was approximately $513,000 for the first quarter of 2016 and $310,000 for the first quarter of 2015. Only a small amount of this interest is expected to be ultimately collected.

Other real estate owned and repossessed assets totaled $4.2 million at March 31, 2016, compared to $8.2 million at December 31, 2015. Other real estate owned and repossessed assets decreased during the quarter primarily due to the sale of two properties.

Potential problem loans are performing loans to borrowers with a weakened financial condition, or which are experiencing unfavorable trends in their financial condition, which causes management to have concerns as to the ability of such borrowers to comply with the existing repayment terms. The Company had approximately $6.1 million of these loans at March 31, 2016, compared to $4.9 million at December 31, 2015. Potential problem loans are not included in nonperforming and restructured loans. In general, these loans are adequately collateralized and have no specific identifiable probable loss. Loans which are considered to have identifiable probable loss potential are placed on nonaccrual status, are allocated a specific allowance for loss or are directly charged-down, and are reported as nonperforming.

Liquidity and Funding

Deposits

At March 31, 2016, deposits totaled $6.0 billion, marginally above the December 31, 2015 balance. The Company's core deposits provide it with a stable, low-cost funding source. The Company's core deposits as a percentage of total

deposits were 94.4% at March 31, 2016 compared to 94.3% at December 31, 2015. Noninterest-bearing deposits to total deposits were 40.2% at March 31, 2016, compared to 40.3% at December 31, 2015.

Short-Term Borrowings

Short-term borrowings, consisting primarily of federal funds purchased and repurchase agreements are another source of funds for the Company. The level of these borrowings is determined by various factors, including customer demand and the Company's ability to earn a favorable spread on the funds obtained. Short-term borrowings were $1.3 million at March 31, 2016, compared to $500,000 at December 31, 2015.

Long-Term Borrowings

The Company has a line of credit from the Federal Home Loan Bank ("FHLB") of Topeka, Kansas to use for liquidity or to match-fund certain long-term fixed rate loans. The Company's assets, including residential first mortgages of $656.2 million, are

pledged as collateral for the borrowings under the line of credit. As of March 31, 2016 and December 31, 2015, the Company had no advances outstanding under the line of credit from FHLB. In addition, the Company has a revolving line of credit with the ability to draw up to $10.0 million. This line of credit has a variable rate based on prime rate minus 25 basis points and matures in 2020. There were no borrowings against this line of credit at March 31, 2016.

There have not been any other material changes from the liquidity and funding discussion included in Management's Discussion and Analysis in the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

Capital Resources

Stockholders' equity totaled $662.7 million at March 31, 2016, compared to $655.5 million at December 31, 2015. In addition to net income of $16.6 million, other changes in stockholders' equity during the three months ended March 31, 2016 included $693,000 related to stock option exercises, $451,000 related to stock-based compensation and a $530,000 increase in other comprehensive income, that were partially offset by $5.6 million in dividends and $5.5 million in stock repurchases. The Company's leverage ratio and total risk-based capital ratios at March 31, 2016, were well in excess of the regulatory requirements.

See Note (7) of the Notes to Consolidated Financial Statements for a discussion of capital ratio requirements.

CONTRACTUAL OBLIGATIONS

There have not been any material changes in the resources required for scheduled repayments of contractual obligations from the table of Contractual Cash Obligations included in Management's Discussion and Analysis which was included in the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

BANCFIRST CORPORATION

CONSOLIDATED AVERAGE BALANCE SHEETS AND INTEREST MARGIN ANALYSIS

(Unaudited)

Taxable Equivalent Basis (Dollars in thousands)

	Three Months Ended March 31,					
	2016			2015		
	Average Balance	Interest Income/ Expense	Average Yield/ Rate	Average Balance	Interest Income/ Expense	Average Yield/ Rate
ASSETS						
Earning assets:						
Loans (1)	$4,242,883	$50,329	4.76 %	$3,840,833	$46,051	4.86 %
Securities – taxable	491,505	1,327	1.08	486,430	1,399	1.17
Securities – tax exempt	42,539	393	3.71	39,005	378	3.93
Interest-bearing deposits w/ banks & FFS	1,419,500	1,802	0.51	1,686,414	1,062	0.26
Total earning assets	6,196,427	53,851	3.49	6,052,682	48,890	3.28
Nonearning assets:						
Cash and due from banks	179,455			181,937		
Interest receivable and other assets	336,841			316,550		
Allowance for loan losses	(41,591)			(40,879)		
Total nonearning assets	474,705			457,608		
Total assets	$6,671,132			$6,510,290		
LIABILITIES AND STOCKHOLDERS' EQUITY						
Interest-bearing liabilities:						
Transaction deposits	$792,120	$201	0.10 %	$723,908	$168	0.09 %
Savings deposits	2,078,802	1,691	0.33	2,052,927	1,150	0.23
Time deposits	721,792	1,188	0.66	743,624	1,220	0.67
Short-term borrowings	1,111	1	0.35	3,033	1	0.14
Junior subordinated debentures	31,959	522	6.55	26,804	491	7.43
Total interest-bearing liabilities	3,625,784	3,603	0.40	3,550,296	3,030	0.35
Interest-free funds:						
Noninterest-bearing deposits	2,359,783			2,312,217		
Interest payable and other liabilities	23,627			28,636		
Stockholders' equity	661,938			619,141		
Total interest free funds	3,045,348			2,959,994		
Total liabilities and stockholders' equity	$6,671,132			$6,510,290		
Net interest income		$50,248			$45,860	
Net interest spread			3.09 %			2.93 %
Effect of interest free funds			0.16 %			0.14 %
Net interest margin			3.25 %			3.07 %

(1) Nonaccrual loans are included in the average loan balances and any interest on such nonaccrual loans is recognized on a cash basis.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

There have been no significant changes in the Registrant's disclosures regarding market risk since December 31, 2015, the date of its most recent annual report to stockholders.

Item 4. Controls and Procedures.

The Company's Chief Executive Officer, Chief Financial Officer and its Disclosure Committee, which includes the Company's Chief Risk Officer, Chief Internal Auditor, Chief Asset Quality Officer, Controller, and General Counsel, have evaluated, as of the last day of the period covered by this report, the Company's disclosure controls and procedures. Based on their evaluation they concluded that the disclosure controls and procedures of the Company are effective to ensure that information required to be disclosed by the

Company in the reports filed or submitted by it under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported, within the time periods specified in the applicable rules and forms.

No changes were made to the Company's internal control over financial reporting during the period covered by this report that materially affected, or are likely to materially affect, the Company's internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings.

The Company has been named as a defendant in various legal actions arising from the conduct of its normal business activities. Although the amount of any liability that could arise with respect to these actions cannot be accurately predicted, in the opinion of the Company, any such liability will not have a material adverse effect on the consolidated financial statements of the Company.

Item 1A. Risk Factors.

As of March 31, 2016, there have been no material changes from the risk factors previously disclosed in Part I, Item 1A, of the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

The following table provides information with respect to purchases made by or on behalf of the Company or any "affiliated purchaser" (as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934), of the Company's common stock during the three months ended March 31, 2016.

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan	Maximum Number of Shares That May Yet Be Purchased Under the Plan at the End of the Period
January 1, 2016 to January 31, 2016	65,367	$ 55.33	65,367	100,909
February 1, 2016 to February 29, 2016	34,633	55.04	34,633	66,276
March 1, 2016 to March 31, 2016	—	—	—	66,276

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

None.

Item 5. Other Information.

None.

Item 6. Exhibits.

Exhibit Number	Exhibit
3.1	Second Amended and Restated Certificate of Incorporation of BancFirst Corporation (filed as Exhibit 1 to the Company's 8-A/A filed July 23, 1998 and incorporated herein by reference).
3.2	Certificate of Amendment of the Second Amended and Restated Certificate of Incorporation of BancFirst Corporation dated June 15, 2004 (filed as Exhibit 3.5 to the Company's Quarterly Report on Form 10-Q for the Quarter Ended June 30, 2004 and incorporated herein by reference).
3.3	Amended and Restated By-Laws of BancFirst Corporation (filed as Exhibit 3.1 to the Company's Current Report on Form 8-K dated March 30, 2015 and incorporated herein by reference).
3.4	Certificate of Amendment of the Second Amended and Restated Certificate of Incorporation of BancFirst Corporation dated May 23, 2013 (filed as Exhibit 3.1 to the Company's Current Report on Form 8-K dated May 29, 2013 and incorporated herein by reference).
4.1	Instruments defining the rights of securities holders (see Exhibits 3.1, 3.2, 3.3 and 3.4 above).
4.2	Form of Amended and Restated Trust Agreement relating to the 7.20% Cumulative Trust Preferred Securities of BFC Capital Trust II (filed as Exhibit 4.5 to the Company's registration statement on Form S-3/A, File No. 333-112488 dated February 23, 2004, and incorporated herein by reference).
4.3	Form of 7.20% Cumulative Trust Preferred Security Certificate for BFC Capital Trust II (filed as Exhibit D to Exhibit 4.5 to the Company's registration statement on Form S-3/A, File No. 333-112488 dated February 23, 2004, and incorporated herein by reference).
4.4	Form of Indenture relating to the 7.20% Junior Subordinated Deferrable Interest Debentures of BancFirst Corporation issued to BFC Capital Trust II (filed as Exhibit 4.1 to the Company's registration statement on Form S-3, File No. 333-112488 dated February 4, 2004, and incorporated herein by reference).
4.5	Form of Certificate of 7.20% Junior Subordinated Deferrable Interest Debenture of BancFirst Corporation (filed as Exhibit 4.2 to the Company's registration statement on Form S-3, File No. 333-112488 dated February 4, 2004, and incorporated herein by reference).
4.6	Form of Guarantee of BancFirst Corporation relating to the 7.20% Cumulative Trust Preferred Securities of BFC Capital Trust II (filed as Exhibit 4.7 to the Company's registration statement on Form S-3/A, File No. 333-112488 dated February 23, 2004, and incorporated herein by reference).
4.7	Form of Guarantee Agreement by and between CSB Bancshares, Inc. and Wilmington Trust Company (filed as Exhibit 4.7 to the Company's Quarterly Report on Form 10-Q for the Quarter ended September 30, 2015 and incorporated herein by reference).
4.8	Form of Indenture relating to the Floating Rate Junior Subordinated Deferrable Interest Debentures of CSB Bancshares, Inc., issued to Wilmington Trust Company (filed as Exhibit 4.8 to the Company's Quarterly Report on Form 10-Q for the Quarter ended September 30, 2015 and incorporated herein by reference).
4.9	

	Form of First Supplemental Indenture relating to the Floating Rate Junior Subordinated Deferrable Interest Debentures by and between Wilmington Trust Company and BancFirst Corporation (filed as Exhibit 4.9 to the Company's Quarterly Report on Form 10-Q for the Quarter ended September 30, 2015 and incorporated herein by reference).
10.1	BancFirst Corporation Employee Stock Ownership and Trust Agreement adopted effective January 1, 2015 (filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the Quarter Ended March 31, 2015 and incorporated herein by reference).
10.2	Fourth Amended and Restated BancFirst Corporation Directors' Stock Option Plan (filed as Exhibit 10.1 to the Company's Form 8-K dated October 28, 2014 and incorporated herein by reference).
10.3	Fourth Amended and Restated BancFirst Corporation Directors' Deferred Stock Compensation Plan (filed as Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the Quarter Ended June 30, 2014 and incorporated herein by reference).
10.4	Thirteenth Amended and Restated BancFirst Corporation Stock Option Plan (filed as Exhibit 10.1 to the Company's Form 8-K dated October 28, 2014 and incorporated herein by reference).
10.5*	Adoption Agreement for the BancFirst Corporation Thrift Plan adopted April 21, 2016 effective January 1, 2016.

Exhibit Number	Exhibit
31.1*	Chief Executive Officer's Certification pursuant to Rule 13a-14(a) or Rule 15d-14(a).
31.2*	Chief Financial Officer's Certification pursuant to Rule 13a-14(a) or Rule 15d-14(a).
32.1*	CEO's Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	CFO's Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase
101.DEF*	XBRL Taxonomy Extension Definition Linkbase
101.LAB*	XBRL Taxonomy Extension Label Linkbase
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase

*Filed herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	BANCFIRST CORPORATION (Registrant)
Date: May 6, 2016	/s/ David E. Rainbolt David E. Rainbolt President Chief Executive Officer (Principal Executive Officer)
Date: May 6, 2016	/s/ Kevin Lawrence Kevin Lawrence Executive Vice President Chief Financial Officer (Principal Financial Officer)