DCP Midstream Partners, LP
Form 10-Q
May 10, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2011

or

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

For the transition period from to

Commission File Number: 001-32678

DCP MIDSTREAM PARTNERS, LP

(Exact name of registrant as specified in its charter)

Delaware	**03-0567133**
(State or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**Identification No.)**

370 17th Street, Suite 2775	
Denver, Colorado	**80202**
(Address of principal executive offices)	**(Zip Code)**

Registrant s telephone number, including area code: (303) 633-2900

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 ¨

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

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

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

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

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

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DCP MIDSTREAM PARTNERS, LP

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

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GLOSSARY OF TERMS

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

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

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CAUTIONARY STATEMENT ABOUT FORWARD-LOOKING STATEMENTS

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

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

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

- the extent of changes in commodity prices, our ability to effectively limit a portion of the adverse impact of potential changes in prices through derivative financial instruments, and the potential impact of price and producers access to capital on natural gas drilling, demand for our services, and the volume of NGLs and condensate extracted;
- general economic, market and business conditions;
- the level and success of natural gas drilling around our assets, the level and quality of gas production volumes around our assets and our ability to connect supplies to our gathering and processing systems in light of competition;
- our ability to grow through acquisitions, contributions from affiliates, or organic growth projects, and the successful integration and future performance of such assets;
- our ability to access the debt and equity markets and the resulting cost of capital, which will depend on general market conditions, our financial and operating results, inflation rates, interest rates and our ability to effectively limit a portion of the adverse effects of potential changes in interest rates by entering into derivative financial instruments, our ability to comply with the covenants to our credit agreement and our debt securities, as well as our ability to maintain our credit ratings;
- our ability to purchase propane from our principal suppliers and make associated profitable sales transactions for our wholesale propane logistics business;
- our ability to construct facilities in a timely fashion, which is partially dependent on obtaining required construction, environmental and other permits issued by federal, state and municipal governments, or agencies thereof, the availability of specialized contractors and laborers, and the price of and demand for supplies;
- the creditworthiness of counterparties to our transactions;

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

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

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

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

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

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

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PART I. FINANCIAL INFORMATION

Item 1. ***Financial Statements***

DCP MIDSTREAM PARTNERS, LP

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

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

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

See accompanying notes to condensed consolidated financial statements.

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DCP MIDSTREAM PARTNERS, LP

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

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

Weighted-average limited partner units outstanding diluted	41.3	34.6

See accompanying notes to condensed consolidated financial statements.

DCP MIDSTREAM PARTNERS, LP

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

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

See accompanying notes to condensed consolidated financial statements.

DCP MIDSTREAM PARTNERS, LP

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

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

Cash and cash equivalents, end of period	$ 5.0	$ 2.6

See accompanying notes to condensed consolidated financial statements.

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DCP MIDSTREAM PARTNERS, LP

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Unaudited)

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

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

Balance, March 31, 2010	$ 74.6	$ 417.6	$ (5.8)	$ (33.5)	$ 222.5	$ 675.4

See accompanying notes to condensed consolidated financial statements.

DCP MIDSTREAM PARTNERS, LP

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Description of Business and Basis of Presentation

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

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

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

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

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

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

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

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

2. Recent Accounting Pronouncements

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

***ASU 2010-28 Intangibles Goodwill and Other (Topic 350): When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts* , or ASU 2010-28** In December 2010, the FASB issued ASU 2010-28 which amended ASC Topic 350 Intangibles Goodwill and Other . ASU 2010-28 requires an entity with reporting units that have carrying amounts that are zero or negative to assess whether it is more likely than not that the reporting units goodwill is impaired. If the entity determines that it is more likely than not that the goodwill of one or more of its reporting units is impaired, the entity is required to perform Step 2 of the goodwill impairment test for those reporting unit(s) and record any resulting impairment as a cumulative-effect adjustment to beginning retained earnings. The provisions of ASU 2010-28 became effective for us on January 1, 2011. We do not have any reporting units that fall under the guidance of ASU 2010-28 and consequently, there was no effect on our condensed consolidated results of operations, cash flows or financial position as a result of adoption.

***ASU, 2010-06 Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements* , or ASU 2010-06** In January 2010, the FASB issued ASU 2010-06 which amended ASC Topic 820-10 Fair Value Measurement and Disclosures Overall. ASU 2010-06 requires new disclosures regarding transfers in and out of assets and liabilities measured at fair value classified within the valuation hierarchy as either Level 1 or Level 2 and information about sales, issuances and settlements on a gross basis for assets and liabilities classified as Level 3. ASU 2010-06 clarifies existing disclosures on the level of disaggregation required and inputs and valuation techniques. The provisions of ASU 2010-06 became effective for us on January 1, 2010, except for disclosure of information about sales, issuances and settlements on a gross basis for assets and liabilities classified as Level 3, which became effective for us on January 1, 2011. The provisions of ASU 2010-06 impact only disclosures and we have disclosed information in accordance with the provisions of ASU 2010-06 within this filing.

***ASU 2009-13 Revenue Recognition (Topic 605) Multiple-Deliverable Revenue Arrangements* , or ASU 2009-13** In October 2009, the FASB issued ASU 2009-13 which amended ASC Topic 605 Revenue Recognition. The ASU addresses the accounting for multiple-deliverable arrangements, to enable vendors to account for products or services separately rather than as a combined unit. ASU 2009-13 became effective for us on January 1, 2011 and there was no impact on our condensed consolidated results of operations, cash flows and financial position as a result of adoption.

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3. Acquisitions

On March 24, 2011, we acquired two NGL fractionation facilities in Weld County, Colorado, located in the Denver-Julesburg, or DJ, Basin, from a third party in a transaction accounted for as an asset acquisition. We paid a purchase price of $30.0 million, financed initially at closing with borrowings under the Partnership s revolving credit facility, and received a post-closing purchase price adjustment of $0.4 million. The NGL fractionation facilities, or the DJ Basin NGL Fractionators, are located on DCP Midstream, LLC s processing plant sites and are operated by DCP Midstream, LLC. Subsequent to our acquisition, DCP Midstream, LLC will continue to operate and supply certain committed NGLs produced by them in Weld County to our DJ Basin NGL Fractionators under the existing agreements that are effective through March 2018. The results of the assets are included in our NGL Logistics segment prospectively, from the date of acquisition.

On January 1, 2011, we acquired a 33.33% interest in Southeast Texas for $150.0 million, in a transaction among entities under common control, financed initially at closing with proceeds from our November 2010 public equity offering and borrowings under the Partnership s revolving credit facility. DCP Midstream, LLC s historical carrying value of the net assets acquired in the acquisition was $114.3 million; accordingly we have recorded the $35.7 million excess purchase price over acquired assets as a decrease in common unitholders equity. The results of our 33.33% interest in Southeast Texas are included in our Natural Gas Services segment for all periods presented.

On December 30, 2010, we acquired all of the interests in Marysville. The acquisition involved three separate transactions with a number of parties. We acquired a 90% interest in Marysville from Dart Energy Corporation, a 5% interest in Marysville from Prospect Street Energy, LLC and 100% of EE Group, LLC, which owned the remaining 5% interest in Marysville. We paid a purchase price of $94.8 million plus $6.0 million for net working capital and other adjustments for an aggregate purchase price of $100.8 million, subject to customary purchase price adjustments, for our 100% interest. The cash purchase was financed initially at closing with borrowings under the Partnership s revolving credit facility. $21.2 million of the purchase price has been deposited in an indemnity escrow to satisfy certain tax liabilities and provide for breaches of representations and warranties of the sellers. The results of the Marysville acquisition are included in our NGL Logistics segment prospectively, from the date of acquisition.

On January 4, 2011, we merged two wholly-owned subsidiaries of Marysville and converted the combined entity s organizational structure from a corporation to a limited liability company. This conversion to a limited liability company triggered tax liabilities, resulting from built-in tax gains recognized in the transaction, to become currently payable. Accordingly, $35.0 million of estimated deferred tax liabilities associated with this transaction and recorded at December 31, 2010, became currently payable as of January 4, 2011. These tax liabilities are unrelated to the tax liabilities of Marysville for which an indemnity escrow has been established. These tax liabilities may be greater or less than the $35.0 million currently recorded in our balance sheet as of March 31, 2011, depending on the final accounting for the Marysville business combination.

We have updated our accounting for the Marysville business combination for the fair value of assets acquired and liabilities assumed including intangible assets and property, plant and equipment and goodwill. The December 31, 2010 condensed consolidated balance sheet included in this report has been retrospectively adjusted to reflect the impact of this change. The purchase price allocation is preliminary and is based on initial estimates of fair values at the date of the acquisition. We are currently evaluating the preliminary purchase price allocation, which will be adjusted as additional information relative to the fair value of assets and liabilities becomes available. This allocation may change in subsequent financial statements pending the final estimates of fair value and the final outcome of our estimated tax liabilities. The preliminary purchase price allocation as of December 31, 2010 compared to the preliminary purchase price allocation as of March 31, 2011 is as follows:

	December 31, 2010	March 31, 2011	Change
		(Millions)	
Aggregate consideration	$ 100.8	$ 100.8	$
Cash	3.1	3.1	
Accounts receivable	1.1	1.1	
Inventory	5.7	4.6	(1.1)
Other current assets	0.7	0.7	
Property, plant and equipment	129.9	57.9	(72.0)
Intangible assets		32.3	32.3
Goodwill		39.6	39.6
Other long-term assets		1.2	1.2
Other current liabilities	(4.7)	(4.7)	

Long-term liabilites		(35.0)		(35.0)	
Total preliminary purchase price allocation	$	100.8	$	100.8	$

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Combined Financial Information

The results of our 33.33% interest in Southeast Texas and the impact of the Marysville preliminary purchase price allocation adjustments are included in the condensed consolidated balance sheets as of March 31, 2011 and December 31, 2010. The following table presents the previously reported December 31, 2010 condensed consolidated balance sheet, adjusted for the acquisition of a 33.33% interest in Southeast Texas from DCP Midstream, LLC and the impact of adjustments to the preliminary purchase price allocation for Marysville:

As of December 31, 2010

	DCP Midstream Partners, LP (As previously reported)	Marysville	Southeast Texas (a)	Combined DCP Midstream Partners, LP (As currently reported)
		(Millions)		
ASSETS				
Current assets:				
Cash and cash equivalents	$ 6.7	$	$	$ 6.7
Accounts receivable	151.0			151.0
Inventories	65.2	(1.1)		64.1
Other	10.2			10.2
Total current assets	233.1	(1.1)		232.0
Property, plant and equipment, net	1,169.1	(72.0)		1,097.1
Goodwill and intangible assets, net	186.7	71.9		258.6
Investments in unconsolidated affiliates	104.3		112.6	216.9
Other non-current assets	7.4	1.2		8.6
Total assets	$ 1,700.6	$	$ 112.6	$ 1,813.2
LIABILITIES AND EQUITY				
Accounts payable and other current liabilities	$ 211.2	$	$	$ 211.2
Long-term debt	647.8			647.8
Other long-term liabilities	103.4			103.4
Total liabilities	962.4			962.4
Commitments and contingent liabilities				
Equity:				
Partners equity				
Predecessor equity (a)			112.6	112.6
Net equity	545.8			545.8
Accumulated other comprehensive income	(27.7)			(27.7)
Total partners equity	518.1		112.6	630.7
Noncontrolling interests	220.1			220.1
Total equity	738.2		112.6	850.8
Total liabilities and equity	$ 1,700.6	$	$ 112.6	$ 1,813.2

(a) The carrying value of our 33.33% interest in Southeast Texas was $112.6 million as of December 31, 2010. As part of the closing of our acquisition on January 1, 2011, we acquired a 33.33% interest in Southeast Texas, with the exception of net liabilities of $1.7 million consisting of financial derivative instruments and certain working capital and other liabilities. Accordingly, we recognized an increase to predecessor equity of $1.7 million in our condensed consolidated statement of changes in equity, thereby reflecting the total carrying value of the net assets acquired on January 1, 2011 as $114.3 million.

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The results of our 33.33% interest in Southeast Texas are included in the condensed consolidated statements of operations for the three months ended March 31, 2011 and March 31, 2010. The following table presents the previously reported condensed consolidated statements of operations for the three months ended March 31, 2010, adjusted for the acquisition of a 33.33% interest in Southeast Texas from DCP Midstream, LLC:

Three Months Ended March 31, 2010

	DCP Midstream Partners, LP (As previously reported)	Southeast Texas (a)	Combined DCP Midstream Partners, LP (As currently reported)
		(Millions)	
Operating revenues:			
Sales of natural gas, propane, NGLs and condensate	$ 370.4	$	$ 370.4
Transportation, processing and other	27.3		27.3
Gains from commodity derivative activity, net	6.0		6.0
Total operating revenues	403.7		403.7
Operating costs and expenses:			
Purchases of natural gas, propane and NGLs	332.8		332.8
Operating and maintenance expense	19.0		19.0
Depreciation and amortization expense	17.8		17.8
General and administrative expense and other	8.6		8.6
Total operating costs and expenses	378.2		378.2
Operating income	25.5		25.5
Interest expense, net	(7.2)		(7.2)
Earnings from unconsolidated affiliates	7.9	6.5	14.4
Income before income taxes	26.2	6.5	32.7
Income tax expense	(0.3)		(0.3)
Net income	25.9	6.5	32.4
Net income attributable to noncontrolling interests	(0.1)		(0.1)
Net income attributable to partners	$ 25.8	$ 6.5	$ 32.3

(a) The results of our 33.33% interest in Southeast Texas for the three months ended March 31, 2010 includes the impact of Hurricane Ike business interruption insurance recoveries of $1.5 million.

The results of operations for acquisitions accounted for as a business combination are included in the DCP Midstream Partners, LP results subsequent to the date of acquisition. Accordingly, total operating revenues of $8.0 million and net income attributable to the Partnership of $5.8 million associated with Marysville are included in the condensed consolidated statement of operations for the three months ended March 31, 2011. Pro forma information is presented for comparative periods prior to the date of acquisition, however, comparative periods are not adjusted to include the results of the acquisition.

The following table presents unaudited pro forma information for the condensed consolidated statement of operations for the three months ended March 31, 2010, as if the acquisition of Marysville had occurred at the beginning of the period presented.

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	Three Months Ended, March 31, 2010		
	DCP Midstream Partners, LP	Acquisition of Marysville	DCP Midstream Partners, LP Pro Forma
	(Millions, except per unit amounts)		
Total operating revenues	$ 403.7	$ 8.6	$ 412.3
Net income attributable to partners	$ 32.3	$ 4.0	$ 36.3
Less:			
Net income attributable to predecessor operations	(6.5)		(6.5)
General partner unitholders interest in net income	(3.8)		(3.8)
Net income allocable to limited partners	$ 22.0	$ 4.0	$ 26.0
Net income per limited partner unit basic and diluted	$ 0.64	$ 0.12	$ 0.76

The pro forma information is not intended to reflect actual results that would have occurred if the acquired business had been combined during the period presented, nor is it intended to be indicative of the results of operations that may be achieved by us in the future.

4. Agreements and Transactions with Affiliates

DCP Midstream, LLC

Omnibus Agreement and Other General and Administrative Charges

We have entered into an omnibus agreement, as amended, or the Omnibus Agreement, with DCP Midstream, LLC. In January 2011, we extended the omnibus agreement through December 31, 2011 for an annual amount of $10.2 million.

Following is a summary of the fees we incurred under the Omnibus Agreement as well as other fees paid to DCP Midstream, LLC:

	Three Months Ended March 31,	
	2011	2010
	(Millions)	
Omnibus Agreement	$ 2.5	$ 2.5
Other fees DCP Midstream, LLC	2.2	2.3
Total DCP Midstream, LLC	$ 4.7	$ 4.8

Under the Omnibus Agreement, we are required to reimburse DCP Midstream, LLC for salaries of operating personnel and employee benefits as well as capital expenditures, maintenance and repair costs, taxes and other direct costs incurred by DCP Midstream, LLC on our behalf. We also pay DCP Midstream, LLC for certain costs incurred and centralized corporate functions performed by DCP Midstream, LLC on our behalf, including legal, accounting, cash management, insurance administration and claims processing, risk management, health, safety and environmental, information technology, human resources, credit, payroll, taxes and engineering. The Omnibus Agreement also addresses the following matters:

DCP Midstream, LLC s obligation to indemnify us for certain liabilities and our obligation to indemnify DCP Midstream, LLC for certain liabilities; and

DCP Midstream, LLC s obligation to continue to maintain its credit support, including without limitation guarantees and letters of credit, for our obligations related to commercial contracts with respect to its business or operations that were in

effect at the closing of our initial public offering until the expiration of such contracts.

Any or all of the provisions of the Omnibus Agreement, other than the indemnification provisions, will be terminable by DCP Midstream, LLC at its option if the general partner is removed without cause and units held by the general partner and its affiliates are not voted in favor of that removal. The Omnibus Agreement will also terminate in the event of a change of control of us, the general partner (DCP Midstream GP, LP) or the General Partner (DCP Midstream GP, LLC).

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East Texas incurs general and administrative expenses directly from DCP Midstream, LLC. During the three months ended March 31, 2011 and 2010, East Texas incurred $1.9 million and $2.0 million, respectively, for general and administrative expenses from DCP Midstream, LLC.

In addition to the Omnibus Agreement and amounts incurred by East Texas, we incurred other general and administrative fees with DCP Midstream, LLC of $0.3 million for each of the three months ended March 31, 2011 and 2010. These amounts include allocated expenses, including professional services, insurance and internal audit.

Other Agreements and Transactions with DCP Midstream, LLC

DCP Midstream, LLC was a significant customer during the three months ended March 31, 2011 and 2010.

We sell a portion of our residue gas, NGLs and condensate to, purchase natural gas and other petroleum products from, and provide gathering and transportation services for, DCP Midstream, LLC. We anticipate continuing to purchase from and sell commodities to DCP Midstream, LLC in the ordinary course of business. In addition, DCP Midstream, LLC conducts derivative activities on our behalf.

We have a contractual arrangement with DCP Midstream, LLC, through March 2022, in which we pay DCP Midstream, LLC a fee for processing services associated with the gas we gather on our Southern Oklahoma system, which is part of our Natural Gas Services segment. In addition, in February 2010, a contract was signed with DCP Midstream, LLC providing for adjustments to those fees based upon plant efficiencies related to our portion of volumes from the Southern Oklahoma system being processed at DCP Midstream, LLC s plant through March 2022. We generally report fees associated with these activities in the condensed consolidated statements of operations as purchases of natural gas, propane, NGLs and condensate from affiliates. In addition, as part of this arrangement, DCP Midstream, LLC pays us a fee for certain gathering services. We generally report revenues associated with these activities in the condensed consolidated statements of operations as transportation, processing and other to affiliates.

DCP Midstream, LLC owns certain assets and is party to certain contractual relationships around our Pelico system, included in our Northern Louisiana system, which is part of our Natural Gas Services segment, that are periodically used for the benefit of Pelico. DCP Midstream, LLC is able to source natural gas upstream of Pelico and deliver it to us and is able to take natural gas from the outlet of the Pelico system and market it downstream of Pelico. We purchase natural gas from DCP Midstream, LLC upstream of Pelico and transport it to Pelico under a firm transportation agreement with an affiliate. Our purchases from DCP Midstream, LLC are at DCP Midstream, LLC s actual acquisition cost plus any transportation service charges. Volumes that exceed our on-system demand are sold to DCP Midstream, LLC at an index-based price, less contractually agreed to marketing fees. Revenues associated with these activities are reported gross in our condensed consolidated statements of operations as sales of natural gas, propane, NGLs and condensate to affiliates.

In conjunction with our acquisition of a 33.33% interest in Southeast Texas from DCP Midstream, LLC for $150.0 million in our Natural Gas Services segment, we entered into a joint venture agreement. The terms of the joint venture agreement provide that distributions and earnings to us for the first seven years related to storage and transportation gross margin will be pursuant to a fee-based arrangement, based on storage capacity and tailgate volumes. Distributions and earnings related to the gathering and processing business, along with reductions for all expenditures, will be pursuant to our and DCP Midstream, LLC s respective ownership interests in Southeast Texas. This transaction closed on January 1, 2011.

In conjunction with our acquisition of a 50.1% limited liability company interest in East Texas, which is part of our Natural Gas Services segment, we entered into agreements with DCP Midstream, LLC whereby DCP Midstream, LLC will reimburse East Texas for certain expenditures on East Texas capital projects. These reimbursements are for certain capital projects which have commenced within three years from the respective acquisition dates. DCP Midstream, LLC made capital contributions to East Texas for capital projects of $2.9 million and $3.8 million for the three months ended March 31, 2011 and 2010, respectively.

On September 16, 2010, we entered into an agreement with DCP Midstream, LLC to sell certain surplus equipment at Collbran, part of our Natural Gas Services segment, with a net book value of $6.2 million for net proceeds of $3.6 million. The surplus equipment is the result of a consolidation of operations at our Anderson Gulch plant in the Piceance Basin. The net proceeds of $3.6 million were distributed 75% to us and 25% to the noncontrolling interest in Collbran, based upon proportionate ownership, during the year ended December 31, 2010. The sale was completed when title to the surplus equipment passed to DCP Midstream, LLC in March 2011. We have recognized a distribution of $2.6 million for the three months ended March 31, 2011 to DCP Midstream, LLC in our condensed consolidated statements of changes in equity representing the difference between the net book value and the proceeds received for the surplus equipment.

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On February 11, 2009, our East Texas natural gas processing complex and natural gas delivery system known as the Carthage Hub, was temporarily shut in following a fire that was caused by a third party underground pipeline rupture outside of our property. We are actively pursuing full reimbursement of our costs and lost margin associated with the incident from the responsible third party. East Texas filed a lawsuit in December 2009, to recover damages from the responsible third party. In the event we are unable to recover our costs and lost margin from the responsible third party, we have insurance covering property damage, net of applicable deductibles. Following this incident, DCP Midstream, LLC has agreed to reimburse to us 25% of any claims received as reimbursement of costs and lost margin, from the responsible third party or from insurance. DCP Midstream, LLC will pay 75% of costs related to the incident as a result of this agreement.

In addition, in our Natural Gas Services segment, we sell NGLs processed at certain of our plants, and sell condensate removed from the gas gathering systems that deliver to certain of our systems under contracts to a subsidiary of DCP Midstream, LLC equal to that subsidiary s net weighted-average sales price, adjusted for transportation, processing and other charges from the tailgate of the respective asset.

In our NGL Logistics segment, we also have a contractual arrangement with a subsidiary of DCP Midstream, LLC that provides that DCP Midstream, LLC will pay us to transport NGLs over our Seabreeze and Wilbreeze pipelines, pursuant to fee-based rates that will be applied to the volumes transported. DCP Midstream, LLC is the sole shipper on these pipelines under the transportation agreements. We generally report revenues associated with these activities in the condensed consolidated statements of operations as transportation, processing and other to affiliates.

In conjunction with our acquisition of the Wattenberg pipeline, which is part of our NGL Logistics segment, we signed a transportation agreement with DCP Midstream, LLC pursuant to fee-based rates that will be applied to the volumes transported, which was effective through December 31, 2010. Effective January 1, 2011, we entered into a 10-year dedication and transportation agreement with a subsidiary of DCP Midstream, LLC whereby certain NGL volumes produced at several of DCP Midstream, LLC s processing facilities are dedicated for transportation on the Wattenberg pipeline. We collect fee-based transportation revenues under our tariff. We generally report revenues associated with these activities in the condensed consolidated statements of operations as transportation, processing and other to affiliates.

In conjunction with our acquisition of our DJ Basin NGL Fractionators in our NGL Logistics segment, we pay a fee to DCP Midstream, LLC to operate our DJ Basin NGL Fractionators and receive fees for the processing of DCP Midstream, LLC s committed NGLs produced by them in Weld County at our DJ Basin NGL Fractionators under agreements that are effective through March 2018.

DCP Midstream, LLC has issued parental guarantees, totaling $85.0 million as of March 31, 2011, in favor of certain counterparties to our commodity derivative instruments to mitigate a portion of our collateral requirements with those counterparties. We pay DCP Midstream, LLC interest of 0.5% per annum on these outstanding guarantees.

DCP Midstream, LLC has issued parental guarantees for its 49.9% limited liability company interest in East Texas, totaling $6.0 million as of March 31, 2011, in favor of certain counterparties to processing and transportation agreements at East Texas. Concurrently, we issued similar guarantees for our 50.1% interest.

Spectra Energy

We have a propane supply agreements with Spectra Energy, effective through April 2012, which provides us propane supply at our marine terminals, which are included in our Wholesale Propane Logistics segment, for up to approximately 185 million gallons of propane annually. Additionally, we have transportation agreements with Spectra Energy, effective through January 2012, which provide natural gas transportation to our Pelico system in our Natural Gas Services segment, for approximately 35 MMcf/d.

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ConocoPhillips

We have multiple agreements with ConocoPhillips and its affiliates. The agreements include fee-based and percent-of-proceeds gathering and processing arrangements, and gas purchase and gas sales agreements. We anticipate continuing to purchase from and sell to ConocoPhillips and its affiliates in the ordinary course of business. In addition, we may be reimbursed by ConocoPhillips for certain capital projects where the work is performed by us. We did not receive any capital reimbursements during the three months ended March 31, 2011 or 2010.

Summary of Transactions with Affiliates

The following table summarizes transactions with affiliates:

	Three Months Ended March 31,	
	2011	2010
	(Millions)	
DCP Midstream, LLC:		
Sales of natural gas, propane, NGLs and condensate	$ 131.1	$ 133.6
Transportation, processing and other	$ 3.2	$ 3.8
Purchases of natural gas, propane and NGLs	$ 63.0	$ 62.8
Losses from commodity derivative activity, net	$ 1.3	$
General and administrative expense	$ 4.7	$ 4.8
Interest expense	$	$ 0.1
Spectra Energy:		
Purchases of natural gas, propane and NGLs	$ 85.2	$ 74.1
ConocoPhillips:		
Sales of natural gas, propane, NGLs and condensate	$ 1.1	$ 1.4
Transportation, processing and other	$ 1.9	$ 1.9
Purchases of natural gas, propane and NGLs	$ 1.4	$ 2.0
General and administrative expense	$ 0.1	$ 0.1
Unconsolidated affiliates:		
Purchases of natural gas, propane and NGLs	$ 3.1	$ 2.4

We had balances with affiliates as follows:

	March 31, 2011	December 31, 2010
	(Millions)	
DCP Midstream, LLC:		
Accounts receivable	$ 67.2	$ 60.1
Accounts payable	$ 27.7	$ 27.0
Unrealized gains on derivative instruments current	$	$ 1.3
Unrealized losses on derivative instruments current	$ (1.2)	$ (1.8)
Spectra Energy:		
Accounts payable	$ 2.2	$ 8.7
ConocoPhillips:		
Accounts receivable	$ 2.2	$ 1.6
Accounts payable	$ 0.5	$ 1.0
Unconsolidated affiliates:		
Accounts payable	$ 0.7	$ 0.9

5. Property, Plant and Equipment

A summary of property, plant and equipment by classification is as follows:

	Depreciable Life	March 31, 2011	December 31, 2010
		(Millions)	
Gathering and transmission systems	15 30 Years	$ 994.1	$ 992.0
Processing, storage, and terminal facilities	20 50 Years	543.0	513.2
Other	0 30 Years	14.7	12.6
Construction work in progress		50.7	42.1
Property, plant and equipment		1,602.5	1,559.9
Accumulated depreciation		(481.9)	(462.8)
Property, plant and equipment, net		$ 1,120.6	$ 1,097.1

Interest capitalized on construction projects for the three months ended March 31, 2011 was $0.2 million and for the year ended December 31, 2010 was $0.2 million.

Depreciation expense was $18.4 million and $17.0 million for the three months ended March 31, 2011 and 2010, respectively.

Asset Retirement Obligations As of March 31, 2011, we had asset retirement obligations of $10.9 million included in other long-term liabilities in the consolidated balance sheets. As of December 31, 2010, we had asset retirement obligations of $10.8 million included in other long-term liabilities in the consolidated balance sheets. Accretion expense for the three months ended March 31, 2011 and 2010 was $0.2 million and $0.1 million, respectively.

6. Goodwill and Intangible Assets

The change in the carrying amount of goodwill is as follows:

	March 31, 2011	December 31, 2010
	(Millions)	
Beginning of period	$ 139.3	$ 92.1
Acquisitions	7.5	47.2
End of period	$ 146.8	$ 139.3

The carrying value of goodwill as of March 31, 2011 and December 31, 2010 was $70.3 million and $62.8 million, respectively, for our Natural Gas Services segment, $36.9 million as of both periods for our Wholesale Propane Logistics segment, and $39.6 million as of both periods for our NGL logistics segment.

Goodwill increased in 2011 by $7.5 million as a result of a purchase price adjustment related to a contingent payment in conjunction with our 2008 Michigan System acquisition.

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Intangible assets consist of customer contracts, including commodity purchase, transportation and processing contracts, and related relationships. The gross carrying amount and accumulated amortization of these intangible assets are included in the accompanying consolidated balance sheets as intangible assets, net, and are as follows:

	March 31, 2011	December 31, 2010
	(Millions)	
Gross carrying amount	$ 128.7	$ 128.7
Accumulated amortization	(10.9)	(9.4)
Intangible assets, net	$ 117.8	$ 119.3

For the three months ended March 31, 2011 and 2010, we recorded amortization expense of $1.5 million and $0.8 million, respectively. As of March 31, 2011, the remaining amortization periods ranged from approximately 11 years to 24 years, with a weighted-average remaining period of approximately 20 years.

The weighted-average remaining amortization is 20 years for the $32.3 million of intangible assets acquired with our acquisition of Marysville.

Estimated future amortization for these intangible assets is as follows:

	Estimated Future Amortization (Millions)
Remainder of 2011	$ 4.6
2012	6.0
2013	6.0
2014	6.0
2015	6.0
Thereafter	89.2
Total	$ 117.8

7. Investments in Unconsolidated Affiliates

The following table summarizes our investments in unconsolidated affiliates:

	Percentage of Ownership as of March 31, 2011 and December 31, 2010	Carrying Value as of	
		March 31, 2011	December 31, 2010
		(Millions)	
Discovery Producer Services LLC	40%	$ 103.0	$ 104.1
Southeast Texas	33%	112.8	112.6
Other	50%	0.2	0.2
Total investments in unconsolidated affiliates		$ 216.0	$ 216.9

There was a deficit between the carrying amount of the investment and the underlying equity of Discovery of $34.5 million and $35.1 million at March 31, 2011 and December 31, 2010, respectively, which is associated with, and is being accreted over, the life of the underlying long-lived assets of Discovery.

Earnings from investments in unconsolidated affiliates were as follows:

	Three Months Ended March 31,	
	2011	2010
	(Millions)	
Discovery Producer Services LLC	$ 4.5	$ 7.4
Southeast Texas	4.1	6.5
Black Lake Pipe Line Company (a)		0.5
Total earnings from unconsolidated affiliates	$ 8.6	$ 14.4

(a) As of March 31, 2010, we owned a 45% interest in Black Lake. On July 27, 2010, we acquired an additional 5% interest in Black Lake from DCP Midstream, LLC in a transaction among entities under common control, and on July 30, 2010, we acquired an additional 50% interest in Black Lake from an affiliate of BP PLC, bringing our ownership interest in Black Lake to 100%. Prior to our acquisition of an additional 50% interest in Black Lake, we accounted for Black Lake under the equity method of accounting. Subsequent to this transaction, we account for Black Lake as a consolidated subsidiary.

The following summarizes combined financial information of our investments in unconsolidated affiliates:

	Three Months Ended March 31,	
	2011 (a)	2010 (b)
	(Millions)	
Statements of operations:		
Operating revenue	$ 259.9	$ 302.7
Operating expenses	$ 240.1	$ 264.7
Net income	$ 19.6	$ 37.9

(a) The combined financial information excludes the results of Black Lake, since we began accounting for Black Lake as a consolidated subsidiary effective July 30, 2010.

(b) The combined financial information for the three months ended March 31, 2010 includes the results of Southeast Texas as transfers of net assets between entities under common control are accounted for as if the transfer occurred at the beginning of the period, and prior years are retrospectively adjusted to furnish comparative information similar to the pooling method.

	March 31, 2011 (a)	December 31, 2010 (a) (b)
	(Millions)	
Balance sheets:		
Current assets	$ 104.8	$ 153.0
Long-term assets	$ 693.6	684.9
Current liabilities	$ (83.8)	(121.4)
Long-term liabilities	$ (29.4)	(30.3)
Net assets	$ 685.2	$ 686.2

(a) The combined financial information excludes the results of Black Lake, since we began accounting for Black Lake as a consolidated subsidiary effective July 30, 2010.

(b) The combined financial information for the three months ended March 31, 2010 includes the results of Southeast Texas as transfers of net assets between entities under common control are accounted for as if the transfer occurred at the beginning of the period, and prior years are retrospectively adjusted to furnish comparative information similar to the pooling method.

8. Fair Value Measurement

Determination of Fair Value

Below is a general description of our valuation methodologies for derivative financial assets and liabilities which are measured at fair value. Fair values are generally based upon quoted market prices, where available. If listed market prices or quotes are not available, we determine fair value based upon a market quote, adjusted by other market-based or independently sourced market data such as historical commodity volatilities, crude oil future yield curves, and/or counterparty specific considerations. These adjustments result in a fair value for each asset or liability under an exit price methodology, in line with how we believe a marketplace participant would value that asset or liability. These adjustments may include amounts to reflect counterparty credit quality, the effect of our own creditworthiness, the time value of money and/or the liquidity of the market.

Counterparty credit valuation adjustments are necessary when the market price of an instrument is not indicative of the fair value as a result of the credit quality of the counterparty. Generally, market quotes assume that all counterparties have near zero, or low, default rates and have equal credit quality. Therefore, an adjustment may be necessary to reflect the credit quality of a specific counterparty to determine the fair value of the instrument. We record counterparty credit valuation adjustments on all derivatives that are in a net asset position as of the measurement date in accordance with our established counterparty credit policy, which takes into account any collateral margin that a counterparty may have posted with us as well as any letters of credit that they have provided.

Entity valuation adjustments are necessary to reflect the effect of our own credit quality on the fair value of our net liability position with each counterparty. This adjustment takes into account any credit enhancements, such as collateral margin we may have posted with a counterparty, as well as any letters of credit that we have provided. The methodology to determine this adjustment is consistent with how we evaluate counterparty credit risk, taking into account our own credit rating, current credit spreads, as well as any change in such spreads since the last measurement date.

Liquidity valuation adjustments are necessary when we are not able to observe a recent market price for financial instruments that trade in less active markets for the fair value to reflect the cost of exiting the position. Exchange traded contracts are valued at market value without making any additional valuation adjustments and, therefore, no liquidity reserve is applied. For contracts other than exchange traded instruments, we mark our positions to the midpoint of the bid/ask spread, and record a liquidity reserve based upon our total net position. We believe that such practice results in the most reliable fair value measurement as viewed by a market participant.

We manage our derivative instruments on a portfolio basis and the valuation adjustments described above are calculated on this basis. We believe that the portfolio level approach represents the highest and best use for these assets as there are benefits inherent in naturally offsetting positions within the portfolio at any given time, and this approach is consistent with how a market participant would view and value the assets and liabilities. Although we take a portfolio approach to managing these assets/liabilities, in order to reflect the fair value of any one individual contract within the portfolio, we allocate all valuation adjustments down to the contract level, to the extent deemed necessary, based upon either the notional contract volume, or the contract value, whichever is more applicable.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. While we believe that our valuation methods are appropriate and consistent with other market participants, we recognize that the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. We review our fair value policies on a regular basis taking into consideration changes in the marketplace and, if necessary, will adjust our policies accordingly. See Note 10 Risk Management and Hedging Activities.

Valuation Hierarchy

Our fair value measurements are grouped into a three-level valuation hierarchy. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows.

Level 1 inputs are unadjusted quoted prices for *identical* assets or liabilities in active markets.

Level 2 inputs include quoted prices for *similar* assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 inputs are unobservable and considered significant to the fair value measurement.

A financial instrument s categorization within the hierarchy is based upon the input that requires the highest degree of judgment in the determination of the instrument s fair value. Following is a description of the valuation methodologies used as well as the general classification of such instruments pursuant to the hierarchy.

Commodity Derivative Assets and Liabilities

We enter into a variety of derivative financial instruments, which may include over the counter, or OTC, instruments, such as natural gas, crude oil or NGL contracts.

Within our Natural Gas Services segment we typically use OTC derivative contracts in order to mitigate a portion of our exposure to natural gas, NGL and condensate price changes. We also may enter into natural gas derivatives to lock in margin around our storage and transportation assets. These instruments are generally classified as Level 2. Depending upon market conditions and our strategy, we may enter into OTC derivative positions with a significant time horizon to maturity, and market prices for these OTC derivatives may only be readily observable for a portion of the duration of the instrument. In order to calculate the fair value of these instruments, readily observable market information is

utilized to the extent that it is available; however, in the event that readily observable market data is not available, we may interpolate or extrapolate based upon observable data. In instances where we utilize an interpolated or extrapolated value, and it is considered significant to the valuation of the contract as a whole, we would classify the instrument within Level 3.

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Within our Wholesale Propane Logistics segment, we may enter into a variety of financial instruments to either secure sales or purchase prices, or capture a variety of market opportunities. Since financial instruments for NGLs tend to be counterparty and location specific, we primarily use the OTC derivative instrument markets, which are not as active and liquid as exchange traded instruments. Market quotes for such contracts may only be available for short dated positions (up to six months), and an active market itself may not exist beyond such time horizon. Contracts entered into with a relatively short time horizon for which prices are readily observable in the OTC market are generally classified within Level 2. Contracts with a longer time horizon, for which we internally generate a forward curve to value such instruments, are generally classified within Level 3. The internally generated curve may utilize a variety of assumptions including, but not limited to, historical and future expected relationship of NGL prices to crude oil prices, the knowledge of expected supply sources coming on line, expected weather trends within certain regions of the United States, and the future expected demand for NGLs.

Each instrument is assigned to a level within the hierarchy at the end of each financial quarter depending upon the extent to which the valuation inputs are observable. Generally, an instrument will move toward a level within the hierarchy that requires a lower degree of judgment as the time to maturity approaches, and as the markets in which the asset trades will likely become more liquid and prices more readily available in the market, thus reducing the need to rely upon our internally developed assumptions. However, the level of a given instrument may change, in either direction, depending upon market conditions and the availability of market observable data.

Interest Rate Derivative Assets and Liabilities

We use interest rate swap agreements as part of our overall capital strategy. These instruments effectively exchange a portion of our floating rate debt for fixed rate debt. The swaps are generally priced based upon a London Interbank Offered Rate, or LIBOR, instrument with similar duration, adjusted by the credit spread between our company and the LIBOR instrument. Given that a portion of the swap value is derived from the credit spread, which may be observed by comparing similar assets in the market, these instruments are classified within Level 2. Default risk on either side of the swap transaction is also considered in the valuation. We record counterparty credit and entity valuation adjustments in the valuation of our interest rate swaps; however, these reserves are not considered to be a significant input to the overall valuation.

Nonfinancial Assets and Liabilities

We utilize fair value on a non-recurring basis to perform impairment tests as required on our property, plant and equipment, goodwill and intangible assets. Assets and liabilities acquired in business combinations are recorded at their fair value as of the date of acquisition. The inputs used to determine such fair value are primarily based upon internally developed cash flow models and would generally be classified within Level 3, in the event that we were required to measure and record such assets at fair value within our condensed consolidated financial statements. Additionally, we use fair value to determine the inception value of our asset retirement obligations. The inputs used to determine such fair value are primarily based upon costs incurred historically for similar work, as well as estimates from independent third parties for costs that would be incurred to restore leased property to the contractually stipulated condition, and would generally be classified within Level 3.

We utilize fair value on a recurring basis to measure our contingent consideration that is a result of certain acquisitions. The inputs used to determine such fair value are primarily based upon internally developed cash flow models and are classified within Level 3.

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The following table presents the financial instruments carried at fair value as of March 31, 2011 and December 31, 2010, by consolidated balance sheet caption and by valuation hierarchy as described above:

	March 31, 2011				December 31, 2010			
	Level 1	Level 2	Level 3	Total Carrying Value	Level 1	Level 2	Level 3	Total Carrying Value
	(Millions)							
Current assets:								
Commodity derivatives (a)	$	$ 0.7	$ 0.2	$ 0.9	$	$ 1.6	$ 0.3	$ 1.9
Long-term assets:								
Commodity derivatives (b)	$	$ 2.9	$ 0.2	$ 3.1	$	$ 1.1	$ 0.3	$ 1.4
Current liabilities (c):								
Commodity derivatives	$	$ (35.0)	$ (2.3)	$ (37.3)	$	$ (25.9)	$ (0.1)	$ (26.0)
Interest rate derivatives	$	$ (17.0)	$	$ (17.0)	$	$ (17.0)	$	$ (17.0)
Long-term liabilities (d):								
Commodity derivatives	$	$ (61.0)	$ (2.4)	$ (63.4)	$	$ (39.9)	$ (0.5)	$ (40.4)
Interest rate derivatives	$	$ (5.8)	$	$ (5.8)	$	$ (9.9)	$	$ (9.9)

(a) Included in current unrealized gains on derivative instruments in our condensed consolidated balance sheets.
(b) Included in long-term unrealized gains on derivative instruments in our condensed consolidated balance sheets.
(c) Included in current unrealized losses on derivative instruments in our condensed consolidated balance sheets.
(d) Included in long-term unrealized losses on derivative instruments in our condensed consolidated balance sheets.

Changes in Level 3 Fair Value Measurements

The tables below illustrate a rollforward of the amounts included in our condensed consolidated balance sheets for derivative financial instruments that we have classified within Level 3. The determination to classify a financial instrument within Level 3 is based upon the significance of the unobservable factors used in determining the overall fair value of the instrument. Since financial instruments classified as Level 3 typically include a combination of observable components (that is, components that are actively quoted and can be validated to external sources) and unobservable components, the gains and losses in the table below may include changes in fair value due in part to observable market factors, or changes to our assumptions on the unobservable components. Depending upon the information readily observable in the market, and/or the use of unobservable inputs, which are significant to the overall valuation, the classification of any individual financial instrument may differ from one measurement date to the next. In the event that there is a movement to/from the classification of an instrument as Level 3, we have reflected such items in the table below within the Transfers in/out of Level 3 caption.

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We manage our overall risk at the portfolio level, and in the execution of our strategy, we may use a combination of financial instruments, which may be classified within any level. Since Level 1 and Level 2 risk management instruments are not included in the rollforward below, the gains or losses in the table do not reflect the effect of our total risk management activities.

	Commodity Derivative Instruments			
	Current Assets	Long-Term Assets	Current Liabilities	Long-Term Liabilities
	(Millions)			
Three months ended March 31, 2011 (a):				
Beginning balance	$ 0.3	$ 0.3	$ (0.1)	$ (0.5)
Net realized and unrealized losses included in earnings		(0.1)	(2.2)	(1.9)
Transfers into Level 3 (b)				
Transfers out of Level 3 (b)				
Settlements	(0.1)			
Ending balance	$ 0.2	$ 0.2	$ (2.3)	$ (2.4)
Net unrealized losses still held included in earnings (c)	$	$ (0.1)	$ (2.2)	$ (1.9)
Three months ended March 31, 2010:				
Beginning balance	$ 0.4	$ 0.2	$ (0.8)	$ (0.4)
Net realized and unrealized (losses) gains included in earnings	1.2	1.0	(0.1)	
Transfers into Level 3 (b)				
Transfers out of Level 3 (b)				
Purchases, Issuances and Settlements net	(0.1)		0.6	
Ending balance	$ 1.5	$ 1.2	$ (0.3)	$ (0.4)
Net unrealized gains still held included in earnings (c)	$ 1.2	$ 1.0	$ 0.4	$

(a) There were no purchases, issuances and sales for the three months ended March 31, 2011.
(b) Amounts transferred in and amounts transferred out are reflected at fair value as of the end of the period.
(c) Represents the amount of total gains or losses for the period, included in gains or losses from commodity derivative activity, net, attributable to change in unrealized gains or losses relating to assets and liabilities classified as Level 3 that are still held as of March 31, 2011 and 2010.

During the three months ended March 31, 2010, we recognized the fair value of our contingent consideration, which is classified as Level 3, in relation to our acquisition of an additional 5% interest in Collbran, from Delta Petroleum Corporation of approximately $1.0 million, which we recorded to other current liabilities in our condensed consolidated balance sheets.

During the three months ended March 31, 2011, we had no significant transfers into and out of Levels 1, 2 and 3. To qualify as a transfer, the asset or liability must have existed in the previous reporting period and moved into a different level during the current period.

Estimated Fair Value of Financial Instruments

We have determined fair value amounts using available market information and appropriate valuation methodologies. However, considerable judgment is required in interpreting market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that we could realize in a current market exchange. The use of different market assumptions and/or estimation methods may have a material effect on the estimated fair value amounts.

The fair value of accounts receivable and accounts payable are not materially different from their carrying amounts because of the short-term nature of these instruments or the stated rates approximating market rates. Unrealized gains and unrealized losses on derivative instruments are carried at fair value. The carrying and fair values of outstanding balances under our Credit

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Agreement are $426.0 million, and $419.4 million, respectively, as of March 31, 2011, and $398.0 million and $388.9 million, respectively, as of December 31, 2010. The carrying and fair values of our 3.25% Senior Notes are $250.0 million and $246.0 million, respectively, as of March 31, 2011 and $250.0 million and $247.0 million, respectively, as of December 31, 2010. We determine the fair value of our credit facility borrowings based upon the discounted present value of expected future cash flows, taking into account the difference between the contractual borrowing spread and the spread for similar credit facilities available in the marketplace. We determine the fair value of our fixed rate debt based on quotes obtained from bond dealers.

9. Debt

Long-term debt was as follows:

	March 31, 2011	December 31, 2010
	(Millions)	
Credit Agreement		
Revolving credit facility, weighted-average variable interest rate of 0.73% and 1.14%, respectively, and net effective interest rate of 4.61% and 4.28%, respectively, due June 21, 2012 (a)	$ 426.0	$ 398.0
Debt Securities		
Issued September 30, 2010, interest at 3.25% payable semi-annually, due October 1, 2015	250.0	250.0
Unamortized discount	(0.2)	(0.2)
Total long-term debt	$ 675.8	$ 647.8

(a) $425.0 million of debt has been swapped to a fixed rate obligation with effective fixed rates ranging from 2.94% to 5.19%, for a net effective rate of 4.61% on the $426.0 million of outstanding debt under our revolving credit facility as of March 31, 2011.

Credit Agreement

We have an $850.0 million revolving credit facility that matures June 21, 2012, or the Credit Agreement.

At March 31, 2011 and December 31, 2010, we had $0.5 million and $32.1 million, respectively, of letters of credit issued and outstanding under the Credit Agreement. As of March 31, 2011, the unused capacity under the revolving credit facility was $423.5 million, of which approximately $365.0 million was available for general working capital purposes.

Our borrowing capacity is limited at March 31, 2011 by the Credit Agreement s financial covenant requirements. Except in the case of a default, amounts borrowed under our credit facility will not mature prior to the June 21, 2012 maturity date.

Under the Credit Agreement, indebtedness under the revolving credit facility bears interest at either: (1) the higher of Wells Fargo Bank s prime rate or the Federal Funds rate plus 0.50%; or (2) LIBOR plus an applicable margin, which ranges from 0.23% to 0.575% dependent upon our credit rating. The revolving credit facility incurs an annual facility fee of 0.07% to 0.175% depending on our credit rating. This fee is paid on drawn and undrawn portions of the revolving credit facility.

The Credit Agreement requires us to maintain a leverage ratio (the ratio of our consolidated indebtedness to our consolidated EBITDA, in each case as is defined by the Credit Agreement) of not more than 5.0 to 1.0, and on a temporary basis for not more than three consecutive quarters (including the quarter in which such acquisition is consummated) following the consummation of asset acquisitions in the midstream energy business of not more than 5.5 to 1.0.

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Debt Securities

On September 30, 2010, we issued $250.0 million of 3.25% Senior Notes due October 1, 2015. We received proceeds, of $247.7 million, which are net of underwriters fees, related expenses and unamortized discounts of $1.5 million, $0.6 million and $0.2 million, respectively, which we used to repay funds borrowed under the revolver portion of our Credit Facility. Interest on the notes will be paid semi-annually on April 1 and October 1 of each year, commencing April 1, 2011. The notes will mature on October 1, 2015, unless redeemed prior to maturity. The underwriters fees and related expenses are deferred in other long-term assets in our condensed consolidated balance sheets and will be amortized over the term of the notes.

The notes are senior unsecured obligations, ranking equally in right of payment with other unsecured indebtedness, including indebtedness under our Credit Facility. We are not required to make mandatory redemption or sinking fund payments with respect to these notes. The securities are redeemable at a premium at our option.

The future maturities of long-term debt in the year indicated are as follows:

	Debt Maturities (Millions)
2011	$
2012	426.0
2013	
2014	
2015	250.0
Thereafter	
Unamortized discount	(0.2)
Total	$ 675.8

Other Agreements

As of March 31, 2011, we had a contingent letter of credit for up to $10.0 million, on which we pay a fee of 0.50% per annum. This facility reduces the amount of cash we may be required to post as collateral. As of March 31, 2011, we had no letters of credit issued on this facility. Any letters of credit issued on this facility will incur a fee of 1.75% per annum and will not reduce the available capacity under our credit facility.

10. Risk Management and Hedging Activities

Our day to day operations expose us to a variety of risks including but not limited to changes in the prices of commodities that we buy or sell, changes in interest rates, and the creditworthiness of each of our counterparties. We manage certain of these exposures with both physical and financial transactions. We have established a comprehensive risk management policy, or Risk Management Policy, and a risk management committee, or the Risk Management Committee, to monitor and manage market risks associated with commodity prices and counterparty credit. The Risk Management Committee is responsible for the overall management of credit risk and commodity price risk, including monitoring exposure limits. The following briefly describes each of the risks that we manage.

Commodity Price Risk

We are exposed to the impact of market fluctuations in the prices of natural gas, NGLs and condensate as a result of our gathering, processing, sales and storage activities. For gathering and processing and storage services, we may receive fees or commodities as payment for these services, depending on the contract type. We enter into derivative financial instruments to mitigate a portion of the risk of weakening natural gas, NGL and condensate prices associated with our gathering, processing and sales activities, thereby stabilizing our cash flows. We have mitigated a portion of our expected commodity price risk associated with our gathering, processing and sales activities through 2016 with commodity derivative instruments. Given the limited liquidity and tenor of the NGL derivatives market, we have primarily utilized crude oil swaps to mitigate a portion of our commodity price exposure for NGLs. For the nearer tenor where there is greater liquidity in the NGL derivatives market, we have periodically also utilized NGL derivatives. Historically, prices of NGLs have been generally related to the price of crude oil, with some exceptions, notably in late 2008 to early 2009, when NGL pricing was at a greater discount to crude oil pricing. When the relationship of NGL prices to crude oil prices is at a discount to historical ranges, we experience additional exposure as a result of the relationship. When our crude oil swaps become short-term in nature, we have periodically converted certain crude oil derivatives to NGL derivatives by entering into offsetting crude oil swaps while adding NGL swaps. Our crude oil and NGL transactions are primarily accomplished through the use of forward contracts that effectively exchange our floating price risk for a fixed price. We also utilize crude oil costless collars that minimize our floating price risk by establishing a fixed price floor and a fixed price ceiling. However, the type of instrument that we use to mitigate a portion of our risk may vary depending upon our risk management objective. These transactions are not designated as hedging instruments for accounting purposes and the change in fair value is reflected within our condensed consolidated statements of operations as a gain or a loss on commodity derivative activity.

With respect to our Pelico system, we may enter into financial derivatives to lock in transportation margins across the system, or to lock in margins around our leased storage facility to maximize value. This objective may be achieved through the use of physical purchases or sales of gas that are accounted for under accrual accounting. While the physical purchase or sale of gas transactions are accounted for under accrual accounting and any inventory is stated at lower of cost or market, the swaps are not designated as hedging instruments for accounting purposes and any change in fair value of these instruments is reflected within our condensed consolidated statements of operations.

Our Wholesale Propane Logistics segment is generally designed to establish stable margins by entering into supply arrangements that specify prices based on established floating price indices and by entering into sales agreements that provide for floating prices that are tied to our variable supply costs plus a margin. To the extent possible, we match the pricing of our supply portfolio to our sales portfolio in order to lock in value and reduce our overall commodity price risk. However, to the extent that we carry propane inventories or our sales and supply arrangements are not aligned, we are exposed to market variables and commodity price risk. We manage the commodity price risk of our supply portfolio and sales portfolio with both physical and financial transactions. While the majority of our sales and purchases in this segment are index-based, occasionally, we may enter into fixed price sales agreements in the event that a retail propane distributor desires to purchase propane from us on a fixed price basis. In such cases, we may manage this risk with derivatives that allow us to swap our fixed price risk to market index prices that are matched to our market index supply costs. In addition, we may on occasion use financial derivatives to manage the value of our propane inventories. These transactions are not designated as hedging instruments for accounting purposes and the change in value is reflected in the current period within our condensed consolidated statements of operations as a gain or loss on commodity derivative activity.

Our portfolio of commodity derivative activity is primarily accounted for using the mark-to-market method of accounting, whereby changes in fair value are recorded directly to the condensed consolidated statements of operations; however, depending upon our risk profile and objectives, in certain limited cases, we may execute transactions that qualify for the hedge method of accounting.

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Commodity Cash Flow Hedges Effective July 1, 2007, we elected to discontinue using the hedge method of accounting for derivatives that manage our commodity price risk. Prior to July 1, 2007, we used commodity swaps to mitigate a portion of the risk of market fluctuations in the price of NGLs, natural gas and condensate. Given our election to discontinue using the hedge method of accounting, the remaining net losses deferred in AOCI relative to cash flow hedges are reclassified to sales of natural gas, propane, NGLs and condensate, through December 2011, as the underlying transactions impact earnings.

Interest Rate Risk

We mitigate a portion of our interest rate risk with interest rate swaps that reduce our exposure to market rate fluctuations by converting variable interest rates to fixed interest rates. These interest rate swap agreements convert the interest rate associated with the indebtedness outstanding under our revolving credit facility to a fixed rate obligation, thereby reducing the exposure to market rate fluctuations.

At March 31, 2011, we had interest rate swap agreements totaling $450 million, of which we have designated $425.0 million as cash flow hedges and account for the remaining $25.0 million under the mark-to-market method of accounting. As we generally expect to have variable rate debt levels equal to or exceeding our swap positions during their term, the entire $450.0 million of these arrangements generally mitigate our interest rate risk through June 2012, with $150 million extending from June 2012 through June 2014. Based on our current operations we believe our interest rate swap agreements adequately mitigate our interest rate risk associated with our variable rate debt.

We have designated $425.0 million of our interest rate swap agreements as cash flow hedges, and effectiveness is determined by matching the principal balance and terms with that of the specified obligation. The effective portions of changes in fair value are recognized in AOCI in the condensed consolidated balance sheets and are reclassified into earnings as the hedged transactions impact earnings. The effect that these swaps have on our condensed consolidated financial statements, as well as the effect that is expected over the upcoming 12 months is summarized in the charts below. However, due to the volatility of the interest rate markets, the corresponding value in AOCI is subject to change prior to its reclassification into earnings. Ineffective portions of changes in fair value are recognized in earnings.

As of March 31, 2011, $275.0 million of the agreements reprice prospectively approximately every 90 days and the remaining $175.0 million of the agreements reprice prospectively approximately every 30 days. Under the terms of the interest rate swap agreements, we pay fixed rates ranging from 2.94% to 5.19%, and receive interest payments based on the three-month and one-month LIBOR. The differences to be paid or received under the interest rate swap agreements are recognized as an adjustment to interest expense.

Contingent Credit Features

Each of the above risks is managed through the execution of individual contracts with a variety of counterparties. Certain of our derivative contracts may contain credit-risk related contingent provisions that may require us to take certain actions in certain circumstances.

We have International Swap Dealers Association, or ISDA, contracts which are standardized master legal arrangements that establish key terms and conditions which govern certain derivative transactions. These ISDA contracts contain standard credit-risk related contingent provisions. Some of the provisions we are subject to are outlined below.

- If we were to have an effective event of default under our Credit Agreement that occurs and is continuing, our ISDA counterparties may have the right to request early termination and net settlement of any outstanding derivative liability positions.

- In the event that we or DCP Midstream, LLC were to be downgraded below investment grade by at least one of the major credit rating agencies, certain of our ISDA counterparties have the right to reduce our collateral threshold to zero, potentially requiring us to fully collateralize any commodity contracts in a net liability position.

- Additionally, in some cases, our ISDA contracts contain cross-default provisions that could constitute a credit-risk related contingent feature. These provisions apply if we default in making timely payments under those agreements and the amount of the default is above certain predefined thresholds, which are significantly high and are generally consistent with the terms of our Credit Agreement. As of March 31, 2011, we are not a party to any agreements that would be subject to these provisions other than our credit agreement.

Our commodity derivative contracts that are not governed by ISDA contracts do not have any credit-risk related contingent features.

Depending upon the movement of commodity prices and interest rates, each of our individual contracts with counterparties to our commodity derivative instruments or to our interest rate swap instruments are in either a net asset or net liability position. As of March 31, 2011, we had $99.4 million of individual commodity derivative contracts that contain credit-risk related contingent features that were in a net liability position, and have not posted any cash collateral relative to such positions. If a credit-risk related event were to occur and we were required to net settle our position with an individual counterparty, our ISDA contracts permit us to net all outstanding contracts with that counterparty, whether in a net asset or net liability position, as well as any cash collateral already posted. As of March 31, 2011, if a credit-risk related event were to occur we may be required to post additional collateral. Additionally, although our commodity derivative contracts that contain credit-risk related contingent features were in a net liability position as of March 31, 2011, if a credit-risk related event were to occur, the net liability position would be partially offset by contracts in a net asset position reducing our net liability to $95.5 million.

As of March 31, 2011, our interest rate swaps were in a net liability position of approximately $22.8 million, of which, the entire amount is subject to credit-risk related contingent features. If we were to have a default of any of our covenants to our Credit Agreement, that occurs and is continuing, the counterparties to our swap instruments have the right to request that we net settle the instrument in the form of cash.

Collateral

As of March 31, 2011, we had a contingent letter of credit facility for up to $10.0 million, on which we have no letters of credit issued. DCP Midstream, LLC had issued and outstanding parental guarantees totaling $85 million in favor of certain counterparties to our commodity derivative instruments. This contingent letter of credit facility and the parental guarantees reduce the amount of cash we may be required to post as collateral. As of March 31, 2011, we had no cash collateral posted with counterparties to our commodity derivative instruments.

Summarized Derivative Information

The following summarizes the balance within AOCI relative to our commodity and interest rate cash flow hedges:

	March 31, 2011	December 31, 2010
	(Millions)	
Commodity cash flow hedges:		
Net deferred losses in AOCI	$ (0.2)	$ (0.3)
Interest rate cash flow hedges:		
Net deferred losses in AOCI	(23.1)	(27.4)
Total AOCI	$ (23.3)	$ (27.7)

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The fair value of our derivative instruments that are designated as hedging instruments, those that are marked-to-market each period, as well as the location of each within our condensed consolidated balance sheets, by major category, is summarized as follows:

Balance Sheet Line Item	March 31, 2011	December 31, 2010
	(Millions)	
Derivative Assets Designated as Hedging Instruments:		
Interest rate derivatives:		
Unrealized gains on derivative instruments current	$	$
Unrealized gains on derivative instruments long-term		
	$	$
Derivative Assets Not Designated as Hedging Instruments:		
Commodity derivatives:		
Unrealized gains on derivative instruments current	$ 0.9	$ 1.9
Unrealized gains on derivative instruments long-term	3.1	1.4
	$ 4.0	$ 3.3
Interest rate derivatives:		
Unrealized gains on derivative instruments current	$	$
Unrealized gains on derivative instruments long-term		
	$	$

Balance Sheet Line Item	March 31, 2011	December 31, 2010
	(Millions)	
Derivative Liabilities Designated as Hedging Instruments:		
Interest rate derivatives:		
Unrealized losses on derivative instruments current	$ (16.1)	$ (12.2)
Unrealized losses on derivative instruments long-term	(5.6)	(5.4)
	$ (21.7)	$ (17.6)
Derivative Liabilities Not Designated as Hedging Instruments:		
Commodity derivatives:		
Unrealized losses on derivative instruments current	$ (37.3)	$ (26.0)
Unrealized losses on derivative instruments long-term	(63.4)	(40.4)
	$ (100.7)	$ (66.4)
Interest rate derivatives:		
Unrealized losses on derivative instruments current	$ (0.9)	$ (4.8)
Unrealized losses on derivative instruments long-term	(0.2)	(4.5)
	$ (1.1)	$ (9.3)

The following table summarizes the impact on our condensed consolidated balance sheet and condensed consolidated statements of operations of our derivative instruments that are accounted for using the cash flow hedge method of accounting.

	Loss Recognized in AOCI on Derivatives Effective Portion	Loss Reclassified From AOCI to Earnings Effective Portion	Gain (Loss) Recognized in Income on Derivatives Ineffective Portion and Amount Excluded From Effectiveness Testing	Deferred Losses in AOCI Expected to be Reclassified into Earnings Over the ">100		
Three Months Ended March 31,					$ 130,373	100

Equity Price Risk

Our equity investment portfolio at March 31, 2016 included common stocks, perpetual preferred stocks, mutual funds and exchange traded funds. We may incur losses due to adverse changes in equity security prices. We manage the risk primarily through industry and issuer diversification and asset mix.

The following table illustrates the composition of our equity securities at March 31, 2016 (amounts in thousands):

	Estimated Fair Value	% of Total Estimated Fair Value
Stocks by sector:		
Financial	$ 23,519	49
Consumer	6,298	13
Energy	2,699	6
Industrial	2,563	5
Other (1)	3,018	6
	38,097	79
Mutual funds and exchange traded funds by type:		
Debt	8,838	18
Equity	1,509	3
	10,347	21
Total	$ 48,444	100

(1) Represents an aggregate of less than 5% sectors.

Foreign Currency Exchange Risk

At March 31, 2016, we did not have any material exposure to foreign currency related risk.

ITEM 4 *CONTROLS AND PROCEDURES*

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our chief executive officer (our principal executive officer) and our chief financial officer (our principal financial officer), we have evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report, and, based on this evaluation, our chief executive officer and our chief financial officer have concluded that these disclosure controls and procedures are effective.

Changes in Internal Control Over Financial Reporting

There have been no changes in our internal controls over financial reporting during the quarter ended March 31, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Limitations on Effectiveness of Controls and Procedures

In designing and evaluating the disclosure controls and procedures, we recognize that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, implementation of possible controls and procedures depends on management s judgment in evaluating their benefits relative to costs.

PART II OTHER INFORMATION

ITEM 1 *LEGAL PROCEEDINGS*

As previously reported in our Form 10-K which was filed with the SEC on March 4, 2016, the Company, each of the directors and the two shareholders agreed to a settlement with respect to the two shareholders demands of alleged damages to the Company. As a result, certain of the directors restricted shares were cancelled March 2, 2016. The cancelled shares were made up of 148,000 shares that would vest in the event our share price reached $50.00 and 12,000 shares that would vest in the event our share price reached $95.00. Our board members and the Company have also implemented certain non-financial corporate governance changes. We are not aware of any other pending shareholder demands.

The Company is a party to claims and legal actions arising routinely in the ordinary course of our business. Although we cannot predict with certainty the ultimate resolution of the claims and lawsuits asserted against us, we do not believe that any currently pending legal proceedings to which we are a party will have a material adverse effect on our consolidated financial position, results of operations or cash flows.

ITEM 1A *RISK FACTORS*

There have been no material changes from the risk factors previously disclosed in the section entitled Risk Factors in our Form 10-K, which was filed with the SEC on March 4, 2016.

ITEM 2 ***UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS***

(a) Sales of Unregistered Securities

None.

(b) Use of Proceeds

None.

(c) Repurchases of Securities

The table below summarizes the number of common shares repurchased during the three months ended March 31, 2016 under a share repurchase plan and also the number of shares of common stock surrendered by employees to satisfy their minimum federal income tax liability associated with the vesting of restricted shares in January 2016 (dollar amounts in thousands, except share and per share amounts):

For the Month Ended	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (a)	Maximum Dollar Value of Shares That May Yet Be Purchased Under The Plans or Programs (b)
January 31, 2016	69,856	$ 31.66	62,964	$ 18,000
February 29, 2016	61,304	$ 32.62	61,304	$ 16,000
March 31, 2016	62,590	$ 31.95	62,590	$ 14,000
	193,750	$ 32.06	186,858	

(a) The share repurchase plan approved by our Board of Directors on December 15, 2015 commenced in January 2016.

(b) Represents the balances before commissions and fees at the end of each month.

Working Capital Restrictions and Other Limitations on Payment of Dividends

We are not subject to working capital restrictions or other limitations on the payment of dividends. Our insurance subsidiary, however, is subject to restrictions on the dividends it may pay. Those restrictions could impact HCI s ability to pay future dividends.

Under Florida law, a domestic insurer such as our insurance subsidiary, HCPCI, may not pay any dividend or distribute cash or other property to its stockholder except out of that part of its available and accumulated capital and

surplus funds which is derived from realized net operating profits on its business and net realized capital gains. Additionally, Florida statutes preclude our insurance subsidiary from making dividend payments or distributions to its stockholder, HCI, without prior approval of the Florida Office of Insurance Regulation if the dividend or distribution would exceed the larger of (1) the lesser of (a) 10.0% of its capital surplus or (b) net income, not including realized capital gains, plus a two year carry forward, (2) 10.0% of capital surplus with dividends payable constrained to unassigned funds minus 25% of unrealized capital gains or (3) the lesser of (a) 10.0% of capital surplus or (b) net investment income plus a three year carry forward with dividends payable constrained to unassigned funds minus 25% of unrealized capital gains.

Alternatively, a Florida domestic insurer may pay a dividend or distribution without the prior written approval of the Florida Office of Insurance Regulation (1) if the dividend is equal to or less than the greater of (a) 10.0% of the insurer s capital surplus as regards policyholders derived from realized net operating profits on its business and net realized capital gains or (b) the insurer s entire net operating profits and realized net capital gains derived during the immediately preceding calendar year, (2) the insurer will have policy holder capital surplus equal to or exceeding 115.0% of the minimum required statutory capital surplus after the dividend or distribution, (3) the insurer files a notice of the dividend or distribution with the Florida Office of Insurance Regulation at least ten business days prior to the dividend payment or distribution and (4) the notice includes a certification by an officer of the insurer attesting that, after the payment of the dividend or distribution, the insurer will have at least 115% of required statutory capital surplus as to policyholders. Except as provided above, a Florida domiciled insurer may only pay a dividend or make a distribution (1) subject to prior approval by the Florida Office of Insurance Regulation or (2) 30 days after the Florida Office of Insurance Regulation has received notice of such dividend or distribution and has not disapproved it within such time.

During the quarter ended March 31, 2016, HCPCI paid a $19,000,000 dividend to HCI.

ITEM 3 *DEFAULTS UPON SENIOR SECURITIES*

None.

ITEM 4 *MINE SAFETY DISCLOSURES*

None.

ITEM 5 *OTHER INFORMATION*

None.

ITEM 6 ***EXHIBITS***

The following documents are filed as part of this report:

EXHIBIT NUMBER	DESCRIPTION
3.1	Articles of Incorporation, with amendments. Incorporated by reference to the correspondingly numbered exhibit to our Form 10-Q filed August 7, 2013.
3.1.1	Articles of Amendment to Articles of Incorporation designating the rights, preferences and limitations of Series B Junior Participating Preferred Stock. Incorporated by reference to Exhibit 3.1 to our Form 8-K filed October 18, 2013.
3.2	Bylaws. Incorporated by reference to the correspondingly numbered exhibit to our Form 10-Q filed August 7, 2013.
4.1	Form of common stock certificate. Incorporated by reference to the correspondingly numbered exhibit to our Form 10-Q filed November 7, 2013.
4.2	Supplement No. 1, dated as of January 17, 2013, to the Indenture, dated as of January 17, 2013, between HCI Group, Inc. (formerly known as Homeowners Choice, Inc.) and The Bank of New York Mellon Trust Company, N.A., as Trustee. Incorporated by reference to the correspondingly numbered exhibit to our Form 8-K filed January 17, 2013.
4.3	Form of 8.00% Senior Note due 2020 (included in Exhibit 4.2). Incorporated by reference to the correspondingly numbered exhibit to our Form 8-K filed January 17, 2013.
4.4	Indenture, dated as of January 17, 2013, between HCI Group, Inc. (formerly known as Homeowners Choice, Inc.) and The Bank of New York Mellon Trust Company, N.A. Incorporated by reference to Exhibit 4.4 to Amendment No. 1 to our Registration Statement on Form S-3 (File No. 333-185228) filed December 10, 2012.
4.6	Form of Subordinated Indenture. Incorporated by reference to the correspondingly numbered exhibit to Amendment No. 1 to our Registration Statement on Form S-3 (File No. 333-185228) filed December 10, 2012.
4.7	Rights Agreement, dated as of October 18, 2013, between HCI Group, Inc. and American Stock Transfer & Trust Company, LLC, which includes as Exhibit A thereto a summary of the terms of the Series B Junior Participating Preferred Stock, as Exhibit B thereto the Form of Right Certificate, and as Exhibit C thereto the Summary of Rights to Purchase Preferred Shares. Incorporated by reference to Exhibit 4.1 to our Form 8-K filed October 18, 2013.

4.8	Indenture, dated December 11, 2013, between HCI Group, Inc. and The Bank of New York Mellon Trust Company, N.A. (including Global Note). Incorporated by reference to Exhibit 4.1 to our Form 8-K filed December 12, 2013.
4.9	See Exhibits 3.1, 3.1.1 and 3.2 of this report for provisions of the Articles of Incorporation, as amended, and our Bylaws, as amended, defining certain rights of security holders.
10.1	Excess of Loss Retrocession Contract (flood), effective June 1, 2014, issued to Homeowners Choice Property & Casualty Insurance Company, Inc. by subscribing reinsurers. Portions of this exhibit have been omitted pursuant to a request for confidential treatment. Incorporated by reference to the correspondingly numbered exhibit to our Form 10-Q filed August 6, 2014.
10.2**	Executive Agreement dated May 1, 2007 between HCI Group, Inc. (formerly known as Homeowners Choice, Inc.) and Richard R. Allen. Incorporated by reference to the correspondingly numbered exhibit to our Registration Statement on Form S-1 (File No. 333-150513), originally filed April 30, 2008, effective July 24, 2008, as amended.
10.3	Reimbursement Contract effective June 1, 2014 between Homeowners Choice Property & Casualty Insurance Company and the State Board of Administration which administers the Florida Hurricane Catastrophe Fund. Incorporated by reference to the correspondingly numbered exhibit to our Form 10-Q filed August 6, 2014.
10.4**	Executive Employment Agreement dated July 1, 2011 between HCI Group, Inc. (formerly known as Homeowners Choice, Inc.) and Paresh Patel. Incorporated by reference to the correspondingly numbered exhibit to our Form 10-Q filed August 12, 2011. See Exhibit 10.89
10.5**	HCI Group, Inc. 2012 Omnibus Incentive Plan.
10.6**	HCI Group, Inc. (formerly known as Homeowners Choice, Inc.) 2007 Stock Option and Incentive Plan. Incorporated by reference to the correspondingly numbered exhibit to our Form 10-Q filed August 29, 2008.
10.7**	Form of Incentive Stock Option Agreement. Incorporated by reference to the correspondingly numbered exhibit to our Registration Statement on Form S-1 (File No. 333-150513), originally filed April 30, 2008, effective July 24, 2008, as amended.
10.8	Catastrophe Aggregate Excess of Loss Reinsurance Contract, effective: June 1, 2014, issued to, Homeowners Choice Property & Casualty Insurance Company, Inc. by subscribing reinsurers (1). Portions of this exhibit have been omitted pursuant to a request for confidential treatment. Incorporated by reference to the correspondingly numbered exhibit to our Form 10-Q filed August 6, 2014.

10.9	Catastrophe Aggregate Excess of Loss Reinsurance Contract, effective: June 1, 2014, issued to, Homeowners Choice Property & Casualty Insurance Company, Inc. by subscribing reinsurers (2). Portions of this exhibit have been omitted pursuant to a request for confidential treatment. Incorporated by reference to the correspondingly numbered exhibit to our Form 10-Q filed August 6, 2014.
10.10	Catastrophe Excess of Loss Reinsurance Contract, effective: June 1, 2014, issued to, Homeowners Choice Property & Casualty Insurance Company, Inc. by subscribing reinsurers (1). Portions of this exhibit have been omitted pursuant to a request for confidential treatment. Incorporated by reference to the correspondingly numbered exhibit to our Form 10-Q filed August 6, 2014.
10.11	Catastrophe Excess of Loss Reinsurance Contract, effective: June 1, 2014, issued to, Homeowners Choice Property & Casualty Insurance Company, Inc. by subscribing reinsurers (2). Portions of this exhibit have been omitted pursuant to a request for confidential treatment. Incorporated by reference to the correspondingly numbered exhibit to our Form 10-Q filed August 6, 2014.
10.12	Multi Year Catastrophe Excess of Loss Reinsurance Contract, effective: June 1, 2014, issued to, Homeowners Choice Property & Casualty Insurance Company, Inc. by subscribing reinsurers (1). Portions of this exhibit have been omitted pursuant to a request for confidential treatment. Incorporated by reference to the correspondingly numbered exhibit to our Form 10-Q filed August 6, 2014.
10.13	Multi Year Catastrophe Excess of Loss Reinsurance Contract, effective: June 1, 2014, issued to, Homeowners Choice Property & Casualty Insurance Company, Inc. by subscribing reinsurers (2). Portions of this exhibit have been omitted pursuant to a request for confidential treatment. Incorporated by reference to the correspondingly numbered exhibit to our Form 10-Q filed August 6, 2014.
10.14	Reinstatement Premium Protection Reinsurance Contract effective June 1, 2014 by Homeowners Choice Property & Casualty Insurance Company, Inc. and subscribing reinsurers. Portions of this exhibit have been omitted pursuant to a request for confidential treatment. Incorporated by reference to the correspondingly numbered exhibit to our Form 10-Q filed August 6, 2014.
10.15	Reinstatement Premium Protection Reinsurance Contract effective June 1, 2014 by Homeowners Choice Property & Casualty Insurance Company, Inc. and subscribing reinsurers (Blue Water 1). Portions of this exhibit have been omitted pursuant to a request for confidential treatment. Incorporated by reference to the correspondingly numbered exhibit to our Form 10-Q filed August 6, 2014.

10.16	Multi Year Reinstatement Premium Protection Reinsurance Contract effective June 1, 2014 by Homeowners Choice Property & Casualty Insurance Company, Inc. and subscribing reinsurers. Portions of this exhibit have been omitted pursuant to a request for confidential treatment. Incorporated by reference to the correspondingly numbered exhibit to our Form 10-Q filed August 6, 2014.
10.17	Form of indemnification agreement for our officers and directors. Incorporated by reference to the correspondingly numbered exhibit to our Form 10-Q filed August 12, 2009.
10.18	Reinstatement Premium Protection Reinsurance Contract effective June 1, 2014 by Homeowners Choice Property & Casualty Insurance Company, Inc. and subscribing reinsurers (Blue Water 2). Portions of this exhibit have been omitted pursuant to a request for confidential treatment. Incorporated by reference to the correspondingly numbered exhibit to our Form 10-Q filed August 6, 2014.
10.19	Reinstatement Premium Protection Reinsurance Contract effective June 1, 2014 by Homeowners Choice Property & Casualty Insurance Company, Inc. and subscribing reinsurers (Aeolus year 1). Portions of this exhibit have been omitted pursuant to a request for confidential treatment. Incorporated by reference to the correspondingly numbered exhibit to our Form 10-Q filed August 6, 2014.
10.20	Per Occurrence Excess Of Loss Reinsurance contract dated June 1, 2012 by Homeowners Choice Property & Casualty Insurance Company, Inc. and subscribing reinsurers. Portions of this exhibit have been omitted pursuant to a request for confidential treatment. Incorporated by reference to the correspondingly numbered exhibit to our Form 10-Q filed August 14, 2012.
10.21	Endorsement No. 2 to the Per Occurrence Excess of Loss Reinsurance Contract Effective June 1, 2012 by Homeowners Choice Property & Casualty Insurance Company, Inc. and subscribing reinsurers. Incorporated by reference to the correspondingly numbered exhibit to our Form 10-Q filed August 6, 2014.
10.22	Reinstatement Premium Protection Reinsurance Contract effective June 1, 2015 by Homeowners Choice Property & Casualty Insurance Company, Inc. and subscribing reinsurers (Aeolus year 2). Portions of this exhibit have been omitted pursuant to a request for confidential treatment. Incorporated by reference to the correspondingly numbered exhibit to our Form 10-Q filed August 6, 2014.
10.23	Assumption Agreement effective October 15, 2014 by and between Homeowners Choice Property & Casualty Insurance Company, Inc. and Citizens Property Insurance Corporation. Incorporated by reference to Exhibit 10.1 of our Form 8-K filed January 28, 2015.
10.28**	Restricted Stock Agreement dated May 8, 2012 whereby HCI Group, Inc. (formerly known as Homeowners Choice, Inc.) issued 30,000 shares of restricted common stock to Richard R. Allen. Incorporated by reference to Exhibit 10.28 of our Form 8-K filed May 10, 2012.

10.30**	Restricted Stock Agreement dated May 8, 2012 whereby HCI Group, Inc. (formerly known as Homeowners Choice, Inc.) issued 20,000 shares of restricted common stock to Andrew L. Graham. Incorporated by reference to Exhibit 10.30 of our Form 8-K filed May 10, 2012.
10.32	Endorsement No. 1 to the Per Occurrence Excess of Loss Reinsurance Contract Effective June 1, 2012 by Homeowners Choice Property & Casualty Insurance Company, Inc. and subscribing reinsurers. Incorporated by reference to the correspondingly numbered exhibit to our Form 10-Q filed May 9, 2013.
10.33	Working Layer Catastrophe Excess of Loss Reinsurance Contract effective June 1, 2013 issued to Homeowners Choice Property & Casualty Insurance Company by subscribing reinsurers. Portions of this exhibit have been omitted pursuant to a request for confidential treatment. Incorporated by reference to the correspondingly numbered exhibit to our Form 10-Q filed May 9, 2013.
10.34**	Restricted Stock Agreement dated May 16, 2013 whereby HCI Group, Inc. (formerly known as Homeowners Choice, Inc.) issued 400,000 shares of restricted common stock to Paresh Patel. Incorporated by reference to Exhibit 10.34 of our Form 8-K filed May 21, 2013. See Exhibit 10.90
10.35**	Restricted Stock Agreement dated May 16, 2013 whereby HCI Group, Inc. (formerly known as Homeowners Choice, Inc.) issued 24,000 shares of restricted common stock to Sanjay Madhu. Incorporated by reference to Exhibit 10.35 of our Form 8-K filed May 21, 2013. See Exhibit 10.91
10.36**	Restricted Stock Agreement dated May 16, 2013 whereby HCI Group, Inc. (formerly known as Homeowners Choice, Inc.) issued 24,000 shares of restricted common stock to George Apostolou. Incorporated by reference to Exhibit 10.36 of our Form 8-K filed May 21, 2013. See Exhibit 10.92
10.37**	Restricted Stock Agreement dated May 16, 2013 whereby HCI Group, Inc. (formerly known as Homeowners Choice, Inc.) issued 24,000 shares of restricted common stock to Harish Patel. Incorporated by reference to Exhibit 10.37 of our Form 8-K filed May 21, 2013. See Exhibit 10.93
10.38**	Restricted Stock Agreement dated May 16, 2013 whereby HCI Group, Inc. (formerly known as Homeowners Choice, Inc.) issued 24,000 shares of restricted common stock to Gregory Politis. Incorporated by reference to Exhibit 10.38 of our Form 8-K filed May 21, 2013. See Exhibit 10.94
10.39**	Restricted Stock Agreement dated May 16, 2013 whereby HCI Group, Inc. (formerly known as Homeowners Choice, Inc.) issued 24,000 shares of restricted common stock to Anthony Saravanos. Incorporated by reference to Exhibit 10.39 of our Form 8-K filed May 21, 2013. See Exhibit 10.95
10.40**	Restricted Stock Agreement dated May 16, 2013 whereby HCI Group, Inc. (formerly known as Homeowners Choice, Inc.) issued 24,000 shares of restricted common stock to Martin Traber. Incorporated by reference to Exhibit 10.40 of our Form 8-K filed May 21, 2013. See Exhibit 10.96

10.41	Endorsement No 1 to Working Layer Catastrophe Excess of Loss Reinsurance Contract effective June 1, 2013 issued to Homeowners Choice Property & Casualty Insurance Company by subscribing reinsurers. Incorporated by reference to the correspondingly numbered exhibit to our Form 10-Q filed August 6, 2014.
10.49	Excess of Loss Retrocession Contract, effective June 1, 2013, issued to Claddaugh Casualty Insurance Company Ltd. by subscribing reinsurers, including Oxbridge Reinsurance Limited (working layer). Incorporated by reference to the correspondingly numbered exhibit to our Form 10-Q filed August 7, 2013.
10.52**	Restricted Stock Agreement dated August 29, 2013 whereby HCI Group, Inc. issued 10,000 shares of restricted common stock to Anthony Saravanos. Incorporated by reference to Exhibit 10.52 of our Form 8-K filed August 29, 2013.
10.53**	Restricted Stock Agreement dated November 12, 2013 whereby HCI Group, Inc. issued 24,000 shares of restricted common stock to Wayne Burks. Incorporated by reference to Exhibit 10.11 of our Form 8-K filed November 13, 2013. See Exhibit 10.97
10.54**	Restricted Stock Agreement dated November 12, 2013 whereby HCI Group, Inc. issued 24,000 shares of restricted common stock to James J. Macchiarola. Incorporated by reference to Exhibit 10.12 of our Form 8-K filed November 13, 2013. See Exhibit 10.98
10.55	Purchase Agreement, dated December 5, 2013, by and between HCI Group, Inc. and JMP Securities LLC, as representative of the several initial purchasers named therein. Incorporated by reference to Exhibit 10.1 of our Form 8-K filed December 6, 2013.
10.56	Prepaid Forward Contract, dated December 5, 2013 and effective as of December 11, 2013, between HCI Group, Inc. and Deutsche Bank AG, London Branch. Incorporated by reference to Exhibit 10.1 of our Form 8-K filed December 12, 2013.
10.57	Form of executive restricted stock award contract. Incorporated by reference to Exhibit 10.57 of our Form 10-Q for the quarter ended March 31, 2014 filed May 1, 2014.
10.58	Endorsement No 1 effective June 1, 2015 to Multi-Year Catastrophe Excess of Loss Reinsurance Contracts effective June 1, 2014 issued to Homeowners Choice Property & Casualty Insurance Company by subscribing reinsurers. Portions of this exhibit have been omitted pursuant to a request for confidential treatment. Incorporated by reference to the correspondingly numbered exhibit to our Form 8-K filed July 30, 2015.

10.59 Endorsement No 1 effective June 1, 2015 to Interests And Liabilities Agreement forming a part of Multi-Year Catastrophe Excess of Loss Reinsurance Contracts effective June 1, 2014 issued to Homeowners Choice Property & Casualty Insurance Company, Inc. by subscribing reinsurers. Incorporated by reference to the correspondingly numbered exhibit to our Form 8-K filed July 30, 2015.

10.60 Endorsement No 1 effective June 1, 2015 to Multi-Year Catastrophe Excess of Loss Reinsurance Contracts effective June 1, 2014 issued to Homeowners Choice Property & Casualty Insurance Company by Endurance Specialty Insurance LTD. Portions of this exhibit have been omitted pursuant to a request for confidential treatment. Incorporated by reference to the correspondingly numbered exhibit to our Form 8-K filed July 30, 2015.

10.61 Endorsement No 1 effective June 1, 2015 to Interests And Liabilities Agreement forming a part of Multi-Year Catastrophe Excess of Loss Reinsurance Contracts effective June 1, 2014 issued to Homeowners Choice Property & Casualty Insurance Company, Inc. by Endurance Specialty Insurance LTD. Incorporated by reference to the correspondingly numbered exhibit to our Form 8-K filed July 30, 2015.

10.62 Endorsement No 2 effective June 1, 2015 to Working Layer Catastrophe Excess of Loss Reinsurance Contract effective June 1, 2013 issued to Homeowners Choice Property & Casualty Insurance Company, Inc. by National Liability & Fire Insurance Company. Incorporated by reference to the correspondingly numbered exhibit to our Form 8-K filed July 30, 2015.

10.63 Endorsement No 3 effective June 1, 2015 to Working Layer Catastrophe Excess of Loss Reinsurance Contract effective June 1, 2013 issued to Homeowners Choice Property & Casualty Insurance Company, Inc. by Claddaugh Casualty Insurance Company LTD. Portions of this exhibit have been omitted pursuant to a request for confidential treatment. Incorporated by reference to the correspondingly numbered exhibit to our Form 8-K filed July 30, 2015.

10.64 Endorsement No 1 effective June 1, 2015 to Multi-Year Reinstatement Premium Protection Reinsurance Contract effective June 1, 2014 issued to Homeowners Choice Property & Casualty Insurance Company, Inc. by subscribing reinsurers. Portions of this exhibit have been omitted pursuant to a request for confidential treatment. Incorporated by reference to the correspondingly numbered exhibit to our Form 8-K filed July 30, 2015.

10.65 Endorsement No 1 effective June 1, 2015 to Interests And Liabilities Agreement forming a part of Multi-Year Reinstatement Premium Protection Reinsurance Contracts effective June 1, 2014 issued to Homeowners Choice Property & Casualty Insurance Company, Inc. by subscribing reinsurers. Incorporated by reference to the correspondingly numbered exhibit to our Form 8-K filed July 30, 2015.

10.66 Endorsement No 1 effective June 1, 2015 to Multi-Year Reinstatement Premium Protection Reinsurance Contract effective June 1, 2014 issued to Homeowners Choice Property & Casualty Insurance Company, Inc. by Blue Water Reinsurance LTD. Portions of this exhibit have been omitted pursuant to a request for confidential treatment. Incorporated by reference to the correspondingly numbered exhibit to our Form 8-K filed July 30, 2015.

10.67 Endorsement No 1 effective June 1, 2015 to Interests And Liabilities Agreement forming a part of Multi-Year Reinstatement Premium Protection Reinsurance Contracts effective June 1, 2014 issued to Homeowners Choice Property & Casualty Insurance Company, Inc. by Blue Water Reinsurance LTD. Incorporated by reference to the correspondingly numbered exhibit to our Form 8-K filed July 30, 2015.

10.68 Endorsement No 1 effective June 1, 2015 to Reinstatement Premium Protection Reinsurance Contract effective June 1, 2015 issued to Homeowners Choice Property & Casualty Insurance Company, Inc. by Aeolus RE LTD. Portions of this exhibit have been omitted pursuant to a request for confidential treatment. Incorporated by reference to the correspondingly numbered exhibit to our Form 8-K filed July 30, 2015.

10.69 Endorsement No 1 effective June 1, 2015 to Interests And Liabilities Agreement forming a part of Reinstatement Premium Protection Reinsurance Contract effective June 1, 2015 issued to Homeowners Choice Property & Casualty Insurance Company, Inc. by Aeolus RE LTD. Incorporated by reference to the correspondingly numbered exhibit to our Form 8-K filed July 30, 2015.

10.70 Endorsement No 1 effective June 1, 2015 to Underlying Aggregate Excess of Loss Reinsurance Contract effective June 1, 2014 issued to Homeowners Choice Property & Casualty Insurance Company, Inc. by Claddaugh Casualty Insurance Company LTD. Incorporated by reference to the correspondingly numbered exhibit to our Form 8-K filed July 30, 2015.

10.71 Endorsement No 1 effective June 1, 2015 to Excess of Loss Reinsurance Contract effective June 1, 2014 issued to Homeowners Choice Property & Casualty Insurance Company, Inc. by National Liability & Fire Insurance Company. Incorporated by reference to the correspondingly numbered exhibit to our Form 8-K filed July 30, 2015.

10.72 Catastrophe Excess of Loss Reinsurance Contract effective June 1, 2015 issued to Homeowners Choice Property & Casualty Insurance Company, Inc. by subscribing reinsurers. Portions of this exhibit have been omitted pursuant to a request for confidential treatment. Incorporated by reference to the correspondingly numbered exhibit to our Form 8-K filed July 30, 2015.

10.73 Interests And Liabilities Agreement forming a part of Catastrophe Excess of Loss Reinsurance Contract effective June 1, 2015 issued to Homeowners Choice Property & Casualty Insurance Company, Inc. by

subscribing reinsurers (Blue Water RE LTD; and Endurance Specialty Insurance LTD). Portions of this exhibit have been omitted pursuant to a request for confidential treatment. Incorporated by reference to the correspondingly numbered exhibit to our Form 8-K filed July 30, 2015.

10.74 Catastrophe Excess of Loss Reinsurance Contract effective June 1, 2015 issued to Homeowners Choice Property & Casualty Insurance Company, Inc. by subscribing reinsurers. Portions of this exhibit have been omitted pursuant to a request for confidential treatment. Incorporated by reference to the correspondingly numbered exhibit to our Form 8-K filed July 30, 2015.

10.75 Interests And Liabilities Agreement forming a part of Catastrophe Excess of Loss Reinsurance Contract effective June 1, 2015 issued to Homeowners Choice Property & Casualty Insurance Company, Inc. by subscribing reinsurers (Allianz Risk Transfer AG (Bermuda Branch)). Portions of this exhibit have been omitted pursuant to a request for confidential treatment. Incorporated by reference to the correspondingly numbered exhibit to our Form 8-K filed July 30, 2015.

10.76 Catastrophe Excess of Loss Reinsurance Contract effective June 1, 2015 issued to Homeowners Choice Property & Casualty Insurance Company, Inc. by subscribing reinsurers. Portions of this exhibit have been omitted pursuant to a request for confidential treatment. Incorporated by reference to the correspondingly numbered exhibit to our Form 8-K filed July 30, 2015.

10.77 Interests and Liabilities Agreement forming a part of Catastrophe Excess of Loss Reinsurance Contract effective June 1, 2015 issued to Homeowners Choice Property & Casualty Insurance Company, Inc. by subscribing reinsurers (Certain Underwriters at Lloyd s; Amlin Bermuda (Branch of Amlin AG); Pioneer Underwriters (on behalf of Peak Reinsurance Company Limited); Ace Tempest Reinsurance Limited; Claddaugh Casualty Insurance Company LTD; Davinci Reinsurance LTD; Endurance Specialty Insurance LTD; Everest Reinsurance Company; Montpelier Reinsurance LTD; Odyssey Reinsurance Company; Partner Reinsurance Company LTD; and Renaissance Reinsurance LTD). Portions of this exhibit have been omitted pursuant to a request for confidential treatment. Incorporated by reference to the correspondingly numbered exhibit to our Form 8-K filed July 30, 2015.

10.78 Catastrophe Excess of Loss Reinsurance Contract effective June 1, 2015 issued to Homeowners Choice Property & Casualty Insurance Company, Inc. by subscribing reinsurers. Portions of this exhibit have been omitted pursuant to a request for confidential treatment. Incorporated by reference to the correspondingly numbered exhibit to our Form 8-K filed July 30, 2015.

10.79 Interests and Liabilities Agreement forming a part of Catastrophe Excess of Loss Reinsurance Contract effective June 1, 2015 issued to Homeowners Choice Property & Casualty Insurance Company, Inc. by

subscribing reinsurers (Certain Underwriters at Lloyd s; Amlin Bermuda (Branch of Amlin AG); Pioneer Underwriters (on behalf of Peak Reinsurance Company Limited); Pioneer Underwriters (on behalf of Taiping Reinsurance Co LTD; Ace Tempest Reinsurance Limited; Arch Reinsurance LTD; Davinci Reinsurance LTD; Endurance Specialty Insurance LTD; Everest Reinsurance Company; Hannover RE (Bermuda) LTD; Montpelier Reinsurance LTD; MS Frontier Reinsurance LTD; Odyssey Reinsurance Company; Partner Reinsurance Company LTD; and Renaissance Reinsurance LTD). Portions of this exhibit have been omitted pursuant to a request for confidential treatment. Incorporated by reference to the correspondingly numbered exhibit to our Form 8-K filed July 30, 2015.

10.80 Catastrophe Excess of Loss Reinsurance Contract effective June 1, 2015 issued to Homeowners Choice Property & Casualty Insurance Company, Inc. by subscribing reinsurers. Portions of this exhibit have been omitted pursuant to a request for confidential treatment. Incorporated by reference to the correspondingly numbered exhibit to our Form 8-K filed July 30, 2015.

10.81 Interests And Liabilities Agreement forming a part of Catastrophe Excess of Loss Reinsurance Contract effective June 1, 2015 issued to Homeowners Choice Property & Casualty Insurance Company, Inc. by subscribing reinsurers (Swiss Reinsurance America Corporation). Portions of this exhibit have been omitted pursuant to a request for confidential treatment. Incorporated by reference to the correspondingly numbered exhibit to our Form 8-K filed July 30, 2015.

10.82 Underlying Catastrophe Excess of Loss Reinsurance Contract effective June 1, 2015 issued to Homeowners Choice Property & Casualty Insurance Company, Inc. by subscribing reinsurers. Portions of this exhibit have been omitted pursuant to a request for confidential treatment. Incorporated by reference to the correspondingly numbered exhibit to our Form 8-K filed July 30, 2015.

10.83 Interests And Liabilities Agreement forming a part of Underlying Catastrophe Excess of Loss Reinsurance Contract effective June 1, 2015 issued to Homeowners Choice Property & Casualty Insurance Company, Inc. by subscribing reinsurer (Claddaugh Casualty Insurance Company LTD). Portions of this exhibit have been omitted pursuant to a request for confidential treatment. Incorporated by reference to the correspondingly numbered exhibit to our Form 8-K filed July 30, 2015.

10.84 Reinstatement Premium Protection Reinsurance Contract effective June 1, 2015 issued to Homeowners Choice Property & Casualty Insurance Company, Inc. by subscribing reinsurers. Portions of this exhibit have been omitted pursuant to a request for confidential treatment. Incorporated by reference to the correspondingly numbered exhibit to our Form 8-K filed July 30, 2015.

10.85 Interests And Liabilities Agreement forming a part of Reinstatement Premium Protection Reinsurance Contract effective June 1, 2015 issued

	to Homeowners Choice Property & Casualty Insurance Company, Inc. subscribing reinsurers (Certain Underwriters at Lloyd s; and Blue Water RE LTD). Portions of this exhibit have been omitted pursuant to a request for confidential treatment. Incorporated by reference to the correspondingly numbered exhibit to our Form 8-K filed July 30, 2015.
10.86	Reinstatement Premium Protection Reinsurance Contract effective June 1, 2015 issued to Homeowners Choice Property & Casualty Insurance Company, Inc. by subscribing reinsurers. Portions of this exhibit have been omitted pursuant to a request for confidential treatment. Incorporated by reference to the correspondingly numbered exhibit to our Form 8-K filed July 30, 2015.
10.87	Interests And Liabilities Agreement forming a part of Reinstatement Premium Protection Reinsurance Contract effective June 1, 2015 issued to Homeowners Choice Property & Casualty Insurance Company, Inc. subscribing reinsurers (Allianz Risk Transfer AG (Bermuda Branch); Blue Water RE LTD); . Portions of this exhibit have been omitted pursuant to a request for confidential treatment. Incorporated by reference to the correspondingly numbered exhibit to our Form 8-K filed July 30, 2015.
10.88	Reimbursement Contract effective June 1, 2015 between Homeowners Choice Property & Casualty Insurance Company and the Florida State Board of Administration which administers the Florida Hurricane Catastrophe Fund. Incorporated by reference to the correspondingly numbered exhibit to our Form 8-K filed August 7, 2015.
10.89**	Amendment dated January 29, 2016 to Employment Agreement between Paresh Patel and HCI Group, Inc. dated July 1, 2011. Incorporated by reference to the correspondingly numbered exhibit to our Form 10-K filed March 4, 2016.
10.90**	Amendment dated March 2, 2016 to Restricted Stock Award Contract between Paresh Patel and HCI Group, Inc. dated May 16, 2013. Incorporated by reference to the correspondingly numbered exhibit to our Form 10-K filed March 4, 2016.
10.91**	Amendment dated March 2, 2016 to Restricted Stock Award Contract between Sanjay Madhu and HCI Group, Inc. dated May 16, 2013. Incorporated by reference to the correspondingly numbered exhibit to our Form 10-K filed March 4, 2016.
10.92**	Amendment dated March 2, 2016 to Restricted Stock Award Contract between George Apostolou and HCI Group, Inc. dated May 16, 2013. Incorporated by reference to the correspondingly numbered exhibit to our Form 10-K filed March 4, 2016.
10.93**	Amendment dated March 2, 2016 to Restricted Stock Award Contract between Harish Patel and HCI Group, Inc. dated May 16, 2013. Incorporated by reference to the correspondingly numbered exhibit to our Form 10-K filed March 4, 2016.

10.94**	Amendment dated March 2, 2016 to Restricted Stock Award Contract between Gregory Politis and HCI Group, Inc. dated May 16, 2013. Incorporated by reference to the correspondingly numbered exhibit to our Form 10-K filed March 4, 2016.
10.95**	Amendment dated March 2, 2016 to Restricted Stock Award Contract between Anthony Saravanos and HCI Group, Inc. dated May 16, 2013. Incorporated by reference to the correspondingly numbered exhibit to our Form 10-K filed March 4, 2016.
10.96**	Amendment dated March 2, 2016 to Restricted Stock Award Contract between Martin Traber and HCI Group, Inc. dated May 16, 2013. Incorporated by reference to the correspondingly numbered exhibit to our Form 10-K filed March 4, 2016.
10.97**	Amendment dated March 2, 2016 to Restricted Stock Award Contract between Wayne Burks and HCI Group, Inc. dated November 12, 2013. Incorporated by reference to the correspondingly numbered exhibit to our Form 10-K filed March 4, 2016.
10.98**	Amendment dated March 2, 2016 to Restricted Stock Award Contract between Jim Macchiarola and HCI Group, Inc. dated November 12, 2013. Incorporated by reference to the correspondingly numbered exhibit to our Form 10-K filed March 4, 2016.
31.1	Certification of the Chief Executive Officer
31.2	Certification of the Chief Financial Officer
32.1	Written Statement of the Chief Executive Officer Pursuant to 18 U.S.C.ss.1350
32.2	Written Statement of the Chief Financial Officer Pursuant to 18 U.S.C.ss.1350
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase.
101.DEF	XBRL Definition Linkbase.
101.LAB	XBRL Taxonomy Extension Label Linkbase.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase.

** Management contract or compensatory plan.

SIGNATURES

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

	HCI GROUP, INC.
May 4, 2016	By: /s/ Paresh Patel Paresh Patel Chief Executive Officer (Principal Executive Officer)
May 4, 2016	By: /s/ Richard R. Allen Richard R. Allen Chief Financial Officer (Principal Financial and Accounting Officer)

A signed original of this document has been provided to HCI Group, Inc. and will be retained by HCI Group, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.