Atlas Resource Partners, L.P.
Form 424B5
May 07, 2014
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As Filed Pursuant to Rule 424(b)(5)
Registration No. 333-193727

This preliminary prospectus supplement relates to an effective registration statement under the Securities Act of 1933, as amended, but the information herein is not complete and may be changed. This preliminary prospectus supplement and the accompanying prospectus are not an offer to sell the securities described herein and are not soliciting offers to buy such securities in any jurisdiction where such offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED MAY 7, 2014

PRELIMINARY PROSPECTUS SUPPLEMENT

(To Prospectus dated February 3, 2014)

Atlas Resource Partners, L.P.

13,500,000

Common units representing limited partner interests

We are offering to sell 13,500,000 of our common units representing limited partner interests.

Our common units are traded on the New York Stock Exchange (NYSE) under the symbol ARP. The last reported sales price of our common units on the NYSE on May 6, 2014 was $20.79.

	Per Common Unit	Total
Public Offering Price	$	$
Underwriting Discount	$	$
Proceeds to Us (Before Expenses)	$	$

We have granted the underwriters a 30-day option to purchase up to an additional 2,025,000 common units on the same terms and conditions set forth above to cover any over-allotments of common units.

Investing in our common units involves certain risks. See Risk Factors on page S-6 of this prospectus supplement and on page 2 of the accompanying prospectus.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved the securities described herein or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

Joint Book-Running Managers

Wells Fargo Securities	**Deutsche Bank Securities**	**Morgan Stanley**
BofA Merrill Lynch	**Citigroup**	**J.P. Morgan**
	RBC Capital Markets	

Co-Managers

Baird	**Stifel**	**MLV & Co.**	**Oppenheimer & Co.**
Stephens Inc.	**Wunderlich Securities**		**Tuohy Brothers**

The date of this prospectus supplement is May , 2014

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In making your investment decision, you should rely only on the information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus. We have not authorized any other person to provide you with any other information. If anyone provides you with different or inconsistent information, you should not rely on it.

You should not assume that the information contained in this prospectus supplement and the accompanying prospectus is accurate as of any date other than the date on the front cover of those documents. You should not assume that the information contained in the documents incorporated by reference in this prospectus supplement and the accompanying prospectus is accurate as of any date other than the respective dates of those documents. Our business, financial condition, results of operations and prospects may have changed since those dates.

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ABOUT THIS PROSPECTUS SUPPLEMENT

This document is in two parts. The first part is this prospectus supplement, which adds to and updates information contained in the accompanying prospectus and the documents incorporated by reference therein. The second part is the accompanying prospectus, which gives more general information, some of which may not apply to this offering.

To the extent any inconsistency or conflict exists between (i) the information included in or incorporated by reference into this prospectus supplement, and (ii) the information included in or incorporated by reference into the accompanying prospectus, the information included in or incorporated by reference into this prospectus supplement updates and supersedes the information included in or incorporated by reference into the accompanying prospectus. In addition, any statement in a filing that we make with the Securities and Exchange Commission (SEC) that adds to, updates or changes information contained in an earlier filing that we made with the SEC shall be deemed to modify and supersede such information in the earlier filing.

SPECIAL NOTE ON FORWARD-LOOKING STATEMENTS AND RISK FACTORS

Certain sections of this prospectus supplement and the accompanying prospectus contain statements reflecting our views about our future performance and constitute forward-looking statements. We and our representatives may, from time to time, make written or oral forward-looking statements, including statements contained in our filings with the SEC and in our reports to security holders. Generally, the inclusion of the words believe, expect, intend, estimate, project, anticipate, will and similar expressions identify statements that constit forward-looking statements. All statements addressing operating performance of us or any subsidiary, events or developments that we expect or anticipates would occur in the future are forward-looking statements.

These views involve risks and uncertainties that are difficult to predict and, accordingly, our actual results may differ materially from the results discussed in such forward-looking statements. Readers should consider the various factors, including those discussed in our annual report for the year ended December 31, 2013 under Risk Factors, Management s Discussion and Analysis of Financial Condition and Results of Operations and Critical Accounting Policies and Estimates, for factors that may affect our performance. The forward-looking statements are and will be based upon management s then-current views and assumptions regarding future events and operating performance, and are applicable only as of the dates of such statements. We undertake no obligation to update any forward-looking statements as a result of new information, future events or otherwise.

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THE PARTNERSHIP

We are a publicly-traded master-limited partnership (NYSE: ARP) and an independent developer and producer of natural gas, crude oil and natural gas liquids, or NGLs, with operations in basins across the United States. We are a leading sponsor and manager of tax-advantaged investment partnerships, or Drilling Partnerships, in which we co-invest, to finance a portion of our natural gas, crude oil and NGL production activities.

We believe we have established a strong track record of growing our reserves, production and cash flows through a balanced mix of natural gas, crude oil and NGL exploration and development, sponsorship of our Drilling Partnerships, and the acquisition of oil and natural gas properties. Our primary business objective is to generate growing yet stable cash flows through the development and acquisition of mature, long-lived natural gas, crude oil and NGL properties. As of December 31, 2013, our estimated proved reserves were 1,169 billion cubic feet equivalent, or Bcfe, including the reserves net to our equity interest in our Drilling Partnerships. Of our estimated proved reserves, approximately 68% were proved developed and approximately 83% were natural gas.

Our general partner, Atlas Energy, L.P., or ATLS, a publicly traded master-limited partnership (NYSE: ATLS), manages our operations and activities through its ownership of our general partner interest. At March 31, 2014, ATLS owned 100% of our general partner Class A units, all of the incentive distribution rights through which it manages and effectively controls us, and an approximate 33.7% limited partner interest (20,962,485 common and 3,749,986 preferred limited partner units) in us. We were formed in October 2011 to own and operate substantially all of ATLS exploration and production assets, which were transferred to us on March 5, 2012.

Recent Developments

Pending Acquisition from Merit Energy

On May 6, 2014, we, through our wholly-owned subsidiary, ARP Rangely Production, LLC, entered into a purchase and sale agreement with Merit Management Partners I, L.P., Merit Energy Partners III, L.P., and Merit Energy Company, LLC, which we collectively refer to as Merit Energy, to acquire Merit s interests in the Rangely Field in Colorado for $420 million, subject to certain purchase price adjustments.

The assets we are to acquire include the following:

- Net daily production of approximately 2,900 barrels of oil equivalent per day for the quarter ended March 31, 2014, 90% of which is oil; and

- Approximately 47 million barrels of oil equivalent of proved oil and NGL reserves, as of April 1, 2014, 52% of which are proved developed.

The assets also include a 22% ownership interest in the Raven Ridge pipeline, which delivers CO_2 to the Rangely Field from Rock Springs, Wyoming.

The reserves and production information presented above is based solely on our internal evaluation and interpretation of reserve and other information provided to us by Merit Energy in the course of our due diligence with respect to the pending acquisition and has not been independently verified or estimated.

We expect the pending Merit Energy acquisition to close in the second quarter of 2014 and to have an effective date of April 1, 2014. The acquisition is subject to adjustments and other conditions, including purchase price and asset allocation adjustments, and walk away rights, for, among other things, required third-party consents that are not received prior to closing, consents or refusals under existing rights of first

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refusal, and title, leasehold and environmental defects with respect to the assets. Accordingly, investors should be aware that it is possible that the overall size of the Merit Energy acquisition, including the amount of assets acquired and the purchase price paid, could be smaller than is currently contemplated. Also, it is possible that one or more closing conditions may not be satisfied or, if not satisfied, that such condition may not be waived by the other party. If we are unable to consummate the acquisition or if the size of the acquisition is reduced, we may not realize the expected benefits of the proposed acquisition. The closing of the pending Merit Energy acquisition is not conditioned on the closing of this offering, and this offering is not conditioned on the closing of the pending Merit Energy acquisition.

We plan to use the net proceeds from this offering to fund a portion of the $420 million purchase price for the assets we are to acquire in the pending Merit Energy acquisition. Before funding the Merit Energy acquisition, we may use some or all of the net proceeds for general partnership purposes, which may include repayment of borrowings under our revolving credit facility. If the pending Merit Energy acquisition is not completed, or if we raise proceeds from this offering in excess of the purchase price for the Merit Energy acquisition, such proceeds will be used to reduce borrowings outstanding under our revolving credit facility, for general partnership purposes and for potential future acquisitions. See Use of Proceeds.

GeoMet Acquisition

On February 13, 2014, we entered into a definitive asset purchase and sale agreement to acquire certain assets from GeoMet, Inc., or GeoMet (OTCQB: GMET), for approximately $107.0 million in cash with an effective date of January 1, 2014, subject to certain purchase price adjustments. The assets we are to acquire upon closing of this acquisition represent mature, low-declining coal bed methane producing natural gas assets in West Virginia and Virginia, which include, as of January 1, 2014:

- Approximately 70 Bcfe of proved reserves; all of which are natural gas and proved developed.

- Current net production of approximately 22 million cubic feet equivalent per day from over 400 active wells for the year ended December 31, 2013.

- Current production costs: lease operating costs of approximately $1.20/thousand cubic feet, or mcf; production and ad valorem taxes of approximately 10%; transportation and gathering of approximately $0.40/mcf.

The information presented above is based solely on our internal evaluation and interpretation of reserve and other information provided to us by GeoMet in the course of our due diligence with respect to the pending acquisition and has not been independently verified or estimated.

The closing of the acquisition is expected to occur in the second quarter of 2014 and is subject to certain closing conditions.

Distribution Information

On January 29, 2014, we announced that our board of directors approved the modification of our distribution payment practice to a monthly distribution program. Monthly cash distributions will be paid approximately 45 days following the end of each respective monthly period.

On April 23, 2014, we declared a monthly cash distribution for the month of March 2014 of $0.1933 per common limited partner unit to holders of record on May 7, 2014, which is payable on May 15, 2014. For the month of April 2014, we anticipate distributing a cash distribution of at least $0.1933 per common unit, our current monthly distribution rate.

Partnership Information

Atlas Resource Partners, L.P. is a Delaware limited partnership formed in October 2011. Our principal executive offices are located at Park Place Corporate Center One, 1000 Commerce Drive, Suite 400, S-2

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Pittsburgh, PA 15275, and our telephone number is (877) 280-2857. Our website is *www.atlasresourcepartners.com*. Information on our website or any other website is not incorporated by reference herein and does not constitute a part of this prospectus supplement.

Additional Information

For additional information, please see Where You Can Find More Information in this prospectus supplement.

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The Offering

Common units offered	13,500,000 common units.
	15,525,00 common units if the underwriters exercise their option to acquire an additional 2,025,000 common units.
Common units outstanding before this offering	65,790,233 common units.
Common units outstanding after this offering	79,290,233 common units, or 81,315,233 common units if the underwriters exercise their option to acquire an additional 2,025,000 common units.
Use of proceeds	We plan to use all of the net proceeds from this offering to fund a portion of the $420 million purchase price of the pending Merit Energy acquisition. Before funding the pending Merit Energy acquisition, we may use some or all of the net proceeds for general partnership purposes, which may include repayment of borrowings under our revolving credit facility. If such acquisition is not completed, or if we raise proceeds from this offering in excess of the purchase price therefor, such proceeds will be used to reduce borrowings outstanding under our revolving credit facility, for general partnership purposes and for potential future acquisitions. See Use of Proceeds.
Cash distribution policy	We must distribute all of our cash on hand at the end of each quarter, less reserves established by our general partner in its discretion. The amount of this cash may be greater than or less than the minimum quarterly distribution referred to in the next paragraph. Our partnership agreement requires us to make cash distributions within 45 days after the end of each quarter.
	When quarterly cash distributions exceed $0.46 per unit in any quarter, our general partner, as the holder of our Class A units, receives a higher percentage of the cash distributed in excess of that amount, in increasing percentages up to 50% if the quarterly cash distribution exceeds $0.60 per unit. We refer to our general partner s right to receive these higher amounts of cash as incentive distribution rights.
	For a discussion of our cash distribution policy, please read Our Cash Distribution Policy in the accompanying prospectus.
Voting rights	Our common unitholders have only limited voting rights for matters affecting our business. Common unitholders do not elect our general partner or the members of its board of directors. The board of directors of our general partner is chosen by ATLS.
Estimated ratio of taxable income to distributions	We estimate that a purchaser of common units in this offering who holds those common units from the date of the closing of this offering through the record date for distributions for the quarter ending December 31, 2016 will be allocated, on a

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	cumulative basis, an amount of federal taxable income for that period that will be less than 15% of the cash distributed with respect to that period. Please read U.S. Federal Income Tax Considerations in this prospectus supplement.
Tax consequences	The U. S. federal income tax consequences of owning and disposing of our common units are summarized under the heading U.S. Federal Income Tax Considerations in this prospectus supplement and under the heading Tax Considerations in the accompanying prospectus.
New York Stock Exchange symbol	ARP.
Risk factors	You should read Risk Factors on page S-6 of this prospectus supplement and in the documents incorporated herein by reference, as well as the other cautionary statements throughout this prospectus supplement and the accompanying prospectus and the documents incorporated herein and therein by reference, to ensure you understand the risks associated with an investment in our common units.
Other Relationships	Affiliates of Wells Fargo Securities, LLC, Deutsche Bank Securities Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated, Citigroup Global Markets Inc. and J.P. Morgan Securities LLC are agents and lenders under our revolving credit facility and may receive a substantial portion of the proceeds of this offering through the repayment of indebtedness under such facility. See Use of Proceeds and Underwriting.

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RISK FACTORS

Investing in our common units involves risk. Before you decide whether to purchase any of our common units, in addition to the other information, documents or reports included or incorporated by reference into this prospectus supplement and the accompanying prospectus or other offering materials, you should carefully consider the following risk factors and the risk factors in the section entitled Risk Factors in our most recent Annual Report on Form 10-K and any Quarterly Reports on Form 10-Q and Current Reports on Form 8-K filed by us subsequent to such Annual Report on Form 10-K, as the same may be amended, supplemented or superseded from time to time by our filings under the Securities Exchange Act of 1934, as amended, or the Exchange Act. For more information, see the section of this prospectus supplement entitled Where You Can Find More Information. These risks could materially and adversely affect our business, financial condition or operating results and could result in a partial or complete loss of your investment.

We may not be able to consummate our pending Merit Energy acquisition, which could adversely affect our business operations and cash available for quarterly distributions.

The purchase agreement related to the pending Merit Energy acquisition contains customary closing conditions. It is possible that one or more closing conditions may not be satisfied or, if not satisfied, that such condition may not be waived by the other party. The closing of this offering is not contingent upon the closing of the pending Merit Energy acquisition. If we were unable to consummate the pending Merit Energy acquisition, or we were otherwise not able to realize the expected benefits of the Merit Energy acquisition, it could have a material adverse effect on our business, financial condition and results of operations including, without limitation, decreasing cash available for quarterly distributions. Accordingly, if you decide to purchase our units, you should be willing to do so whether or not we complete the pending Merit Energy acquisition.

Any acquisitions we complete, including the pending GeoMet and Merit Energy acquisitions, are subject to substantial risks that could adversely affect our financial condition and results of operations and reduce our ability to make distributions to unitholders.

Any acquisition, including the pending GeoMet and Merit Energy acquisitions, involves potential risks, including, among other things:

- the validity of our assumptions about reserves, future production, revenues, capital expenditures and operating costs;
- an inability to successfully integrate the businesses we acquire;
- a decrease in our liquidity by using a portion of our available cash or borrowing capacity under our revolving credit facility to finance acquisitions;
- a significant increase in our interest expense or financial leverage if we incur additional debt to finance acquisitions;
- the assumption of unknown environmental and other liabilities, losses or costs for which we are not indemnified or for which our indemnity is inadequate;
- the diversion of management s attention from other business concerns;
- the incurrence of other significant charges, such as impairment of oil and natural gas properties, goodwill or other intangible assets, asset devaluation or restructuring charges;

- unforeseen difficulties encountered in operating in new geographic areas; and
- the loss of key purchasers of our production.

Our decision to acquire oil and natural gas properties depends in part on the evaluation of data obtained from production reports and engineering studies, geophysical and geological analyses, seismic

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data and other information, the results of which are often inconclusive and subject to various interpretations.

Our 2012 and 2013 acquisitions and our pending GeoMet and Merit Energy acquisitions may prove to be worth less than we paid, or provide less than anticipated proved reserves, because of uncertainties in evaluating recoverable reserves, well performance, and potential liabilities as well as uncertainties in forecasting oil and natural gas prices and future development, production and marketing costs.

Successful acquisitions require an assessment of a number of factors, including estimates of recoverable reserves, development potential, well performance, future oil and natural gas prices, operating costs and potential environmental and other liabilities. Our estimates of future reserves and estimates of future production for our 2012 and 2013 acquisitions and the pending GeoMet and Merit Energy acquisitions, are initially based on detailed information furnished by the sellers and subject to review, analysis and adjustment by our internal staff, typically without consulting independent petroleum engineers. Such assessments are inexact and their accuracy is inherently uncertain; our proved reserves estimates may thus exceed actual acquired proved reserves. In connection with our assessments, we perform a review of the acquired properties that we believe is generally consistent with industry practices. However, such a review will not reveal all existing or potential problems. In addition, our review may not permit us to become sufficiently familiar with the properties to fully assess their deficiencies and capabilities. We do not inspect every well. Even when we inspect a well, we do not always discover structural, subsurface and environmental problems that may exist or arise. As a result of these factors, the purchase price we pay to acquire oil and natural gas properties may exceed the value we realize.

Also, our reviews of acquired properties, including properties that are part of the pending GeoMet and Merit Energy acquisitions, are inherently incomplete because it is generally not feasible to perform an in-depth review of the individual properties involved in each acquisition given the time constraints imposed by the applicable acquisition agreement. Even a detailed review of records and properties may not necessarily reveal existing or potential problems, nor would it necessarily permit a buyer to become sufficiently familiar with the properties to fully assess their deficiencies and potential.

Any production associated with the assets we expect to acquire in the pending Merit Energy acquisition will decline if the operator s access to sufficient amounts of carbon dioxide is limited.

Production associated with the assets we expect to acquire in the pending Merit Energy acquisition is dependent on CO_2 tertiary recovery operations in the Rangely Field. The crude oil and NGL production from these tertiary recovery operations depends, in large part, on having access to sufficient amounts of CO_2. The ability to produce oil and NGLs from these assets would be hindered if the supply of CO_2 was limited due to, among other things, problems with the Rangely Field s current CO_2 producing wells and facilities, including compression equipment, or catastrophic pipeline failure. Any such supply limitation could have a material adverse effect on the results of operations and cash flows associated with these tertiary recovery operations. Our anticipated future crude oil and NGL production from tertiary operations is also dependent on the timing, volumes and location of CO_2 injections and, in particular, on the operator s ability to increase its combined purchased and produced volumes of CO_2 and inject adequate amounts of CO_2 into the proper formation and area within the Rangely Field.

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USE OF PROCEEDS

We expect to receive net proceeds of approximately $ million from this offering, after deducting the underwriters discounts and estimated offering fees and expenses payable by us. If the underwriters exercise their option to purchase 2,025,000 additional common units in full, the net proceeds, after deducting underwriters discounts and estimated offering fees and expenses, will be approximately $ million. We plan to use all of the net proceeds from this offering to fund a portion of the $ million purchase price of the pending Merit Energy acquisition. Please read The Partnership Recent Developments for a description of the pending acquisition. Before funding the pending Merit Energy acquisition, we may use some or all of the net proceeds for general partnership purposes, which may include repayment of borrowings under our revolving credit facility.

The closing of this offering is not contingent upon the closing of the pending Merit Energy acquisition. Accordingly, if you decide to purchase our units, you should be willing to do so whether or not we complete the pending Merit Energy acquisition. If we do not complete the pending acquisition, or if we raise proceeds from this offering in excess of the purchase price for the Merit Energy acquisition, we will use the net proceeds from the offering to reduce borrowings outstanding under our revolving credit facility, for general partnership purposes and for potential future acquisitions.

Affiliates of Wells Fargo Securities, LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated, Citigroup Global Markets Inc., Deutsche Bank Securities Inc. and J.P. Morgan Securities LLC are lenders under our revolving credit facility and may receive a portion of the proceeds from this offering. See Underwriting. As of May 6, 2014, indebtedness outstanding under our revolving credit facility was approximately $456.0 million at a weighted average interest rate of approximately 2.24%, excluding outstanding letters of credit. In addition to working capital and general partnership purposes, we have borrowed from time to time under our revolving credit facility for capital expenditures and to finance our recent acquisitions, including our 2013 acquisition of assets from EP Energy E&P Company L.P. and its affiliates and the GeoMet acquisition. The revolving credit facility matures in July 2018.

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CAPITALIZATION

The following table sets forth our consolidated capitalization as of March 31, 2014 (i) on an actual basis, and (ii) on an adjusted basis to give effect to this offering and the application of the net proceeds therefrom, as described in Use of Proceeds.

You should read the following table in conjunction with our historical consolidated financial statements and related notes, Management s Discussion and Analysis of Financial Condition and Results of Operations and other financial information included elsewhere or incorporated by reference in this prospectus supplement.

	As of March 31, 2014	
	Actual	As adjusted
	(in thousands)	
Cash and cash equivalents	$ 1,965	$
Debt:		
Credit facility(1)	366,000	
Senior unsecured notes	523,388	
Total debt	889,388	
Partners capital:		
General partner s interest	1,485	
Preferred limited partners interests	180,543	
Class C preferred limited partner warrants	1,176	
Common limited partners interests	905,888	
Accumulated other comprehensive income (loss)	4,898	
Total partners capital	1,093,990	
Total capitalization	$ 1,983,378	$

(1) As of May 6, 2014, indebtedness outstanding under our revolving credit facility was approximately $456.0 million, excluding outstanding letters of credit. Pending the use of the net proceeds to fund a the purchase price for the pending Merit Energy acquisition, we may use some or all of the net proceeds for general partnership purposes, which may include repayment of outstanding borrowings under our revolving credit facility. See Underwriting.

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U.S. FEDERAL INCOME TAX CONSIDERATIONS

The tax consequences to you of an investment in our common units will depend in part on your own tax circumstances. For a discussion of the principal federal income tax considerations associated with our operations and the purchase, ownership and disposition of our common units, please read Tax Considerations in the accompanying prospectus. You are urged to consult with your own tax advisor about the federal, state, local and foreign tax consequences particular to your circumstances.

Ratio of Taxable Income to Distributions

We estimate that a purchaser of common units in this offering who holds those common units from the date of the closing of this offering through the record date for distributions for the quarter ending December 31, 2016 will be allocated, on a cumulative basis, an amount of federal taxable income for that period that will be less than 15% of the cash distributed with respect to that period. Thereafter, we anticipate that the ratio of allocable taxable income to cash distributions to the unitholders will increase.

Our estimate is based upon the assumption that our available cash for distribution will be sufficient for us to make quarterly distributions at current or higher levels to the holders of our common units, and other assumptions with respect to capital expenditures, cash flow, net working capital and anticipated cash distributions. This estimate and the assumptions are subject to, among other things, numerous business, economic, regulatory, legislative, competitive and political uncertainties beyond our control. Further, our estimate is based on current tax law and tax reporting positions that we will adopt and with which the IRS could disagree. Accordingly, we cannot assure you that our estimate will prove to be correct. The actual percentage of distributions that will constitute taxable income could be higher or lower than expected, and any differences could be material and could materially affect the value of the common units. For example, the ratio of allocable taxable income to cash distributions to a purchaser of common units in this offering will be greater, and perhaps substantially greater, than our estimate with respect to the period described above if (i) gross income from operations exceeds the amount required to make minimum quarterly distributions on all units, yet we only distribute the minimum quarterly distributions on all units; (ii) we make a future offering of common units and use the proceeds of the offering in a manner that does not produce substantial additional deductions during the period described above, such as to repay indebtedness outstanding at the time of this offering or to acquire property that is not eligible for depreciation or amortization for federal income tax purposes or that is depreciable or amortizable at a rate significantly slower than the rate applicable to our assets at the time of this offering; (iii) we drill fewer well locations than we anticipate or spend less than we anticipate in connection with our drilling and completion activities contemplated in our capital budget; or (iv) legislation is enacted that limits or repeals certain U.S. federal income tax preferences currently available to oil and gas exploration and production companies (please read Oil and Natural Gas Taxation Recent Legislative Developments in this prospectus supplement).

Nominee Reporting

Persons who hold an interest in us as a nominee for another person are required to furnish to us:

(1) the name, address and taxpayer identification number of the beneficial owner and the nominee;

(2) a statement regarding whether the beneficial owner is:

- (a) a non-U.S. person;
- (b) a non-U.S. government, an international organization or any wholly owned agency or instrumentality of either of the foregoing; or
- (c) a tax-exempt entity;

(3) the amount and description of units held, acquired or transferred for the beneficial owner; and

(4) specific information including the dates of acquisitions and transfers, means of acquisitions and transfers, and acquisition cost for purchases, as well as the amount of net proceeds from sales.

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Brokers and financial institutions are required to furnish additional information, including whether they are U.S. persons and specific information on units they acquire, hold or transfer for their own account. A penalty of $100 per failure, up to a maximum of $1.5 million per calendar year, is imposed by the Code for failure to report that information to us. The nominee is required to supply the beneficial owner of the units with the information furnished to us.

Oil and Natural Gas Taxation

Depletion Deductions

Subject to the limitations on deductibility of losses (please read Tax Considerations Tax Consequences of Unit Ownership Limitations on Deductibility of Our Losses in the accompanying prospectus), unitholders will be entitled to deductions for the greater of either cost depletion or (if otherwise allowable) percentage depletion with respect to our oil and natural gas interests. Although the Internal Revenue Code requires each unitholder to compute his own depletion allowance and maintain records of his share of the adjusted tax basis of the underlying property for depletion and other purposes, we intend to furnish each of our unitholders with information relating to this computation for federal income tax purposes. Each unitholder, however, remains responsible for calculating his own depletion allowance and maintaining records of his share of the adjusted tax basis of the underlying property for depletion and other purposes.

Percentage depletion is generally available with respect to unitholders who qualify under the independent producer exemption contained in Section 613A(c) of the Internal Revenue Code. For this purpose, an independent producer is a person not directly or indirectly involved in the retail sale of oil, natural gas, or derivative contracts or the operation of a major refinery. Percentage depletion is calculated as an amount generally equal to 15% (and, in the case of marginal production, potentially a higher percentage) of the unitholder s gross income from the depletable property for the taxable year. The percentage depletion deduction with respect to any property is limited to 100% of the taxable income of the unitholder from the property for each taxable year, computed without the depletion allowance. A unitholder that qualifies as an independent producer may deduct percentage depletion only to the extent the unitholder s average net daily production of domestic crude oil, or the natural gas equivalent, does not exceed 1,000 barrels. This depletable amount may be allocated between oil and natural gas production, with 6,000 cubic feet of domestic natural gas production regarded as equivalent to one barrel of crude oil. The 1,000-barrel limitation must be allocated among the independent producer and controlled or related persons and family members in proportion to the respective production by such persons during the period in question.

In addition to the foregoing limitations, the percentage depletion deduction otherwise available is limited to 65% of a unitholder s total taxable income from all sources for the year, computed without the depletion allowance, net operating loss carrybacks, or capital loss carrybacks. Any percentage depletion deduction disallowed because of the 65% limitation may be deducted in the following taxable year if the percentage depletion deduction for such year plus the deduction carryover does not exceed 65% of the unitholder s total taxable income for that year. The carryover period resulting from the 65% net income limitation is unlimited.

Unitholders that do not qualify under the independent producer exemption are generally restricted to depletion deductions based on cost depletion. Cost depletion deductions are calculated by (i) dividing the unitholder s share of the adjusted tax basis in the underlying mineral property by the number of mineral units (barrels of oil and mcf of natural gas) remaining as of the beginning of the taxable year and (ii) multiplying the result by the number of mineral units sold within the taxable year. The total amount of deductions based on cost depletion cannot exceed the unitholder s share of the total adjusted tax basis in the property.

All or a portion of any gain recognized by a unitholder as a result of either the disposition by us of some or all of our oil and natural gas interests or the disposition by the unitholder of some or all of his units may be taxed as ordinary income to the extent of recapture of depletion deductions, except for percentage depletion deductions in excess of the tax basis of the property. The amount of the recapture is generally limited to the amount of gain recognized on the disposition.

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The foregoing discussion of depletion deductions does not purport to be a complete analysis of the complex legislation and Treasury Regulations relating to the availability and calculation of depletion deductions by the unitholders. Further, because depletion is required to be computed separately by each unitholder and not by our partnership, no assurance can be given, and counsel is unable to express any opinion, with respect to the availability or extent of percentage depletion deductions to the unitholders for any taxable year. Moreover, the availability of percentage depletion may be reduced or eliminated if recently proposed (or similar) tax legislation is enacted. For a discussion of such legislative proposals, please read Recent Legislative Developments. We encourage each prospective unitholder to consult his tax advisor to determine whether percentage depletion would be available to him.

Deductions for Intangible Drilling and Development Costs

We elect to currently deduct intangible drilling and development costs, which we refer to as IDCs. IDCs generally include our expenses for wages, fuel, repairs, hauling, supplies and other items that are incidental to, and necessary for, the drilling and preparation of wells for the production of oil, natural gas, or geothermal energy. The option to currently deduct IDCs applies only to those items that do not have a salvage value.

Although we will elect to currently deduct IDCs, each unitholder will have the option of either currently deducting IDCs or capitalizing all or part of the IDCs and amortizing them on a straight-line basis over a 60-month period, beginning with the taxable month in which the expenditure is made. If a unitholder makes the election to amortize the IDCs over a 60-month period, no IDC preference amount in respect of those IDCs will result for alternative minimum tax purposes.

Integrated oil companies must capitalize 30% of all their IDCs (other than IDCs paid or incurred with respect to oil and natural gas wells located outside of the United States) and amortize these IDCs over 60 months beginning in the month in which those costs are paid or incurred. If the taxpayer ceases to be an integrated oil company, it must continue to amortize those costs as long as it continues to own the property to which the IDCs relate. An integrated oil company is a taxpayer that has economic interests in oil or natural gas properties and also carries on substantial retailing or refining operations. An oil or natural gas producer is deemed to be a substantial retailer or refiner if it is subject to the rules disqualifying retailers and refiners from taking percentage depletion. To qualify as an independent producer that is not subject to these IDC deduction limits, a unitholder, either directly or indirectly through certain related parties, may not be involved in the refining of more than 75,000 barrels of oil (or the equivalent amount of natural gas) on average for any day during the taxable year or in the retail marketing of oil and natural gas products exceeding $5 million per year in the aggregate.

IDCs previously deducted that are allocable to property (directly or through ownership of an interest in a partnership) and that would have been included in the adjusted tax basis of the property had the IDC deduction not been taken are recaptured to the extent of any gain realized upon the disposition of the property or upon the disposition by a unitholder of interests in us. Recapture is generally determined at the unitholder level. Where only a portion of the recapture property is sold, any IDCs related to the entire property are recaptured to the extent of the gain realized on the portion of the property sold. In the case of a disposition of an undivided interest in a property, a proportionate amount of the IDCs with respect to the property is treated as allocable to the transferred undivided interest to the extent of any gain recognized. Please read Tax Considerations Disposition of Common Units Recognition of Gain or Loss in the accompanying prospectus.

The election to currently deduct IDCs may be restricted or eliminated if recently proposed (or similar) tax legislation is enacted. For a discussion of such legislative proposals, please read Recent Legislative Developments.

Note that this discussion of IDCs relates to our direct drilling operations. IDCs incurred with respect to our investment partnerships are allocated to the investor limited partners and thus are not available to our unitholders.

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Deduction for U.S. Production Activities

Subject to the limitations on the deductibility of losses discussed in the accompanying prospectus and the limitations discussed below, unitholders will be entitled to a deduction, herein referred to as the Section 199 deduction, equal to 9% of the lesser of (i) our qualified production activities income that is allocated to such unitholder or (ii) the unitholder s taxable income, but not to exceed 50% of such unitholder s IRS Form W-2 wages for the taxable year allocable to domestic production gross receipts.

Qualified production activities income is generally equal to gross receipts from domestic production activities reduced by cost of goods sold allocable to those receipts, other expenses directly associated with those receipts, and a share of other deductions, expenses and losses that are not directly allocable to those receipts or another class of income. The products produced must be manufactured, produced, grown or extracted in whole or in significant part by the taxpayer in the United States.

For a partnership, the Section 199 deduction is determined at the partner level. To determine his Section 199 deduction, each unitholder will aggregate his share of the qualified production activities income allocated to him from us with the unitholder s qualified production activities income from other sources. Each unitholder must take into account his distributive share of the expenses allocated to him from our qualified production activities regardless of whether we otherwise have taxable income. However, our expenses that otherwise would be taken into account for purposes of computing the Section 199 deduction are taken into account only if and to the extent the unitholder s share of losses and deductions from all of our activities is not disallowed by the tax basis rules, the at-risk rules or the passive activity loss rules. Please read Tax Considerations Tax Consequences of Unit Ownership Limitations on Deductibility of Our Losses in the accompanying prospectus.

The amount of a unitholder s Section 199 deduction for each year is limited to 50% of the IRS Form W-2 wages actually or deemed paid by the unitholder during the calendar year that are deducted in arriving at qualified production activities income. Each unitholder is treated as having been allocated IRS Form W-2 wages from us equal to the unitholder s allocable share of our wages that are deducted in arriving at qualified production activities income for that taxable year. It is not anticipated that we or our subsidiaries will pay material wages that will be allocated to our unitholders, and thus a unitholder s ability to claim the Section 199 deduction may be limited.

A unitholder s otherwise allowable Section 199 deduction for each taxable year is reduced by 3% of the least of (i) the oil related qualified production activities income of the taxpayer for the taxable year, (ii) the qualified production activities income of the taxpayer for the taxable year, or (iii) the taxpayer s taxable income for the taxable year (determined without regard to any Section 199 deduction). For this purpose, the term oil related qualified production activities income means the qualified production activities income attributable to the production, refining, processing, transportation, or distribution of oil, gas, or any primary production thereof. We expect that most or all of our qualified production activities income will consist of oil related qualified production activities income

This discussion of the Section 199 deduction does not purport to be a complete analysis of the complex legislation and Treasury authority relating to the calculation of domestic production gross receipts, qualified production activities income, or IRS Form W-2 wages, or how such items are allocated by us to unitholders. Further, because the Section 199 deduction is required to be computed separately by each unitholder, no assurance can be given, and counsel is unable to express any opinion, as to the availability or extent of the Section 199 deduction to the unitholders. Moreover, the availability of Section 199 deductions may be reduced or eliminated if recently proposed (or similar) tax legislation is enacted. For a discussion of such legislative proposals, please read Recent Legislative Developments. Each prospective unitholder is encouraged to consult his tax advisor to determine whether the Section 199 deduction would be available to him.

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Lease Acquisition Costs

The cost of acquiring oil and natural gas lease or similar property interests is a capital expenditure that must be recovered through depletion deductions if the lease is productive. If a lease is proved worthless and abandoned, the cost of acquisition less any depletion claimed may be deducted as an ordinary loss in the year the lease becomes worthless. Please read Depletion Deductions.

Geophysical Costs

The cost of geophysical exploration incurred in connection with the exploration and development of oil and natural gas properties in the United States are deducted ratably over a 24-month period beginning on the date that such expense is paid or incurred. This 24-month period is extended to seven years in the case of major integrated oil companies.

Operating and Administrative Costs

Amounts paid for operating a producing well are deductible as ordinary business expenses, as are administrative costs to the extent they constitute ordinary and necessary business expenses that are reasonable in amount.

Recent Legislative Developments

The present federal income tax treatment of publicly traded partnerships, including us, or an investment in our units,