
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 December 31, 2016
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from __________ to __________
Commission File Number: 001-35172

NGL Energy Partners LP
(Exact Name of Registrant as Specified in Its Charter)

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

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

(918) 481-1119
(Registrant’s Telephone Number, Including Area Code)

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

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 ¨ (Do not check if a smaller reporting company)   Smaller reporting company ¨

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

At February 6, 2017, there were 110,059,407 common units issued and outstanding.

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Forward-Looking Statements

This Quarterly Report on Form 10-Q ("Quarterly Report") contains various forward-looking statements and information that are based on our beliefs and those of our general partner, as well as assumptions made by and information currently available to us. These forward-looking statements are identified as any statement that does not relate strictly to historical or current facts. Certain words in this Quarterly Report such as "anticipate," "believe," "could," "estimate," "expect," "forecast," "goal," "intend," "may," "plan," "project," "will," and similar expressions and statements regarding our p objectives for future operations, identify forward-looking statements. Although we and our general partner believe such forward-looking statements are reasonable, neither we nor our general partner can assure they will prove to be correct. Forward-looking statements are subject to a variety of risks, uncertainties and assumptions. If one or more of these risks or uncertainties materialize, or if underlying assumptions prove incorrect, our actual results may vary materially from those expected. Among the key risk factors that may affect our consolidated financial position and results of operations are:

- the prices of crude oil, natural gas liquids, refined products, ethanol, and biodiesel;
- energy prices generally;
- the general level of crude oil, natural gas, and natural gas liquids production;
- the general level of demand for crude oil, natural gas liquids, refined products, ethanol, and biodiesel;
- the availability of supply of crude oil, natural gas liquids, refined products, ethanol, and biodiesel;
- the level of crude oil and natural gas drilling and production in producing areas where we have water treatment and disposal facilities;
- the prices of propane and distillates relative to the prices of alternative and competing fuels;
- the price of gasoline relative to the price of corn, which affects the price of ethanol;
- the ability to obtain adequate supplies of products if an interruption in supply or transportation occurs and the availability of capacity to transport products to market areas;
- actions taken by foreign oil and gas producing nations;
- the political and economic stability of foreign oil and gas producing nations;
- the effect of weather conditions on supply and demand for crude oil, natural gas liquids, refined products, ethanol, and biodiesel;
- the effect of natural disasters, lightning strikes, or other significant weather events;
- the availability of local, intrastate, and interstate transportation infrastructure with respect to our truck, railcar, and barge transportation services;
- the availability, price, and marketing of competing fuels;
- the effect of energy conservation efforts on product demand;
- energy efficiencies and technological trends;
- governmental regulation and taxation;
- the effect of legislative and regulatory actions on hydraulic fracturing, wastewater disposal, and the treatment of flowback and produced water;
- hazards or operating risks related to transporting and distributing petroleum products that may not be fully covered by insurance;
- the maturity of the crude oil, natural gas liquids, and refined products industries and competition from other marketers;
- loss of key personnel;
- the ability to renew contracts with key customers;
- the ability to maintain or increase the margins we realize for our terminal, barging, trucking, water disposal, recycling, and discharge services;
- the ability to renew leases for our leased equipment and storage facilities;

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- the nonpayment or nonperformance by our counterparties;
- the availability and cost of capital and our ability to access certain capital sources;
- a deterioration of the credit and capital markets;
- the ability to successfully identify and consummate strategic acquisitions, and integrate acquired assets and businesses;
- changes in the volume of hydrocarbons recovered during the wastewater treatment process;
- changes in the financial condition and results of operations of entities in which we own noncontrolling equity interests;
- changes in applicable laws and regulations, including tax, environmental, transportation, and employment regulations, or new interpretations by regulatory agencies concerning such laws and regulations and the effect of such laws and regulations (now existing or in the future) on our business operations;
- the costs and effects of legal and administrative proceedings;
- any reduction or the elimination of the federal Renewable Fuel Standard; and
- changes in the jurisdictional characteristics of, or the applicable regulatory policies with respect to, our pipeline assets.

You should not put undue reliance on any forward-looking statements. All forward-looking statements speak only as of the date of this Quarterly Report. Except as may be required by state and federal securities laws, we undertake no obligation to publicly update or revise any forward-looking statements as a result of new information, future events, or otherwise. When considering forward-looking statements, please review the risks discussed under Part I, Item 1A–"Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended March 31, 2016 and under Part II, Item 1A–"Risk Factors" in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2016.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

NGL ENERGY PARTNERS LP AND SUBSIDIARIES
Unaudited Condensed Consolidated Balance Sheets
(U.S. Dollars in Thousands, except unit amounts)

	December 31, 2016	March 31, 2016
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 28,927	$ 28,176
Accounts receivable-trade, net of allowance for doubtful accounts of $5,578 and $6,928, respectively	765,290	521,014
Accounts receivable-affiliates	20,008	15,625
Inventories	613,993	367,806
Prepaid expenses and other current assets	134,485	95,859
Total current assets	1,562,703	1,028,480
PROPERTY, PLANT AND EQUIPMENT, net of accumulated depreciation of $348,136 and $266,491, respectively	1,746,925	1,649,572
GOODWILL	1,462,116	1,315,362
INTANGIBLE ASSETS, net of accumulated amortization of $388,517 and $316,878, respectively	1,164,749	1,148,890
INVESTMENTS IN UNCONSOLIDATED ENTITIES	187,514	219,550
LOAN RECEIVABLE-AFFILIATE	2,700	22,262
OTHER NONCURRENT ASSETS	251,369	176,039
Total assets	$ 6,378,076	$ 5,560,155
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Accounts payable-trade	$ 650,886	$ 420,306
Accounts payable-affiliates	22,917	7,193
Accrued expenses and other payables	196,033	214,426
Advance payments received from customers	63,509	56,185
Current maturities of long-term debt	33,501	7,907
Total current liabilities	966,846	706,017
LONG-TERM DEBT, net of debt issuance costs of $24,574 and $15,500, respectively, and current maturities	3,216,505	2,912,837
OTHER NONCURRENT LIABILITIES	186,280	247,236
COMMITMENTS AND CONTINGENCIES (NOTE 10)		
CLASS A 10.75% CONVERTIBLE PREFERRED UNITS, 19,942,169 and 0 preferred units issued and outstanding, respectively	61,170	—
EQUITY:		
General partner, representing a 0.1% interest, 109,201 and 104,274 notional units, respectively	(50,785)	(50,811)
Limited partners, representing a 99.9% interest, 109,091,710 and 104,169,573 common units issued and outstanding, respectively	1,969,113	1,707,326

Accumulated other comprehensive loss	(97)	(157)
Noncontrolling interests	29,044	37,707
Total equity	1,947,275	1,694,065
Total liabilities and equity	$ 6,378,076	$ 5,560,155

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

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NGL ENERGY PARTNERS LP AND SUBSIDIARIES
Unaudited Condensed Consolidated Statements of Operations
(U.S. Dollars in Thousands, except unit and per unit amounts)

	Three Months Ended December 31, 2016	As Restated Three Months Ended December 31, 2015	Nine Months Ended December 31, 2016	As Restated Nine Months Ended December 31, 2015
REVENUES:				
Crude Oil Logistics	$385,906	$519,425	$1,161,742	$2,854,787
Water Solutions	40,359	45,438	115,845	147,225
Liquids	470,275	353,527	909,584	861,504
Retail Propane	128,654	100,145	240,131	217,798
Refined Products and Renewables	2,381,283	1,666,471	6,746,168	5,335,356
Other	164	—	679	—
Total Revenues	3,406,641	2,685,006	9,174,149	9,416,670
COST OF SALES:				
Crude Oil Logistics	361,839	495,529	1,107,587	2,770,240
Water Solutions	477	(3,128)	3,871	(8,088)
Liquids	430,946	300,766	831,221	754,157
Retail Propane	60,508	45,974	106,019	96,417
Refined Products and Renewables	2,374,175	1,594,359	6,674,194	5,149,151
Other	77	—	300	—
Total Cost of Sales	3,228,022	2,433,500	8,723,192	8,761,877
OPERATING COSTS AND EXPENSES:				
Operating	76,981	104,721	225,408	307,941
General and administrative	18,280	23,035	88,077	114,814
Depreciation and amortization	60,767	59,180	160,276	175,772
Loss (gain) on disposal or impairment of assets, net	34	1,328	(203,433)	3,040
Revaluation of liabilities	—	(19,312)	—	(46,416)
Operating Income	22,557	82,554	180,629	99,642
OTHER INCOME (EXPENSE):				
Equity in earnings of unconsolidated entities	1,279	2,858	1,726	14,008
Revaluation of investments	—	—	(14,365)	—
Interest expense	(41,436)	(36,176)	(105,316)	(98,549)
Gain on early extinguishment of liabilities	—	—	30,890	—
Other income, net	20,007	2,161	25,860	2,941
Income Before Income Taxes	2,407	51,397	119,424	18,042
INCOME TAX (EXPENSE) BENEFIT	(1,114)	(402)	(2,036)	1,846
Net Income	1,293	50,995	117,388	19,888
LESS: NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	(317)	(6,838)	(6,091)	(14,685)
NET INCOME ATTRIBUTABLE TO NGL ENERGY PARTNERS LP	976	44,157	111,297	5,203
LESS: DISTRIBUTIONS TO PREFERRED UNITHOLDERS	(8,906)	—	(20,958)	—
LESS: NET INCOME ALLOCATED TO GENERAL PARTNER	(22)	(16,239)	(180)	(47,798)
NET (LOSS) INCOME ALLOCATED TO COMMON UNITHOLDERS	$(7,952)	$27,918	$90,159	$(42,595)

BASIC (LOSS) INCOME PER COMMON UNIT	$(0.07)	$0.27	$0.85	$(0.41)
DILUTED (LOSS) INCOME PER COMMON UNIT	$(0.07)	$0.22	$0.82	$(0.41)
BASIC WEIGHTED AVERAGE COMMON UNITS OUTSTANDING	107,966,901	105,338,200	106,114,668	104,808,649
DILUTED WEIGHTED AVERAGE COMMON UNITS OUTSTANDING	107,966,901	106,194,547	109,554,928	104,808,649

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

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NGL ENERGY PARTNERS LP AND SUBSIDIARIES
Unaudited Condensed Consolidated Statements of Comprehensive Income
(U.S. Dollars in Thousands)

		As Restated		As Restated
	Three Months Ended December 31,		Nine Months Ended December 31,	
	2016	2015	2016	2015
Net income	$1,293	$50,995	$117,388	$19,888
Other comprehensive income (loss)	545	(12)	60	(39)
Comprehensive income	$1,838	$50,983	$117,448	$19,849

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

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NGL ENERGY PARTNERS LP AND SUBSIDIARIES
Unaudited Condensed Consolidated Statement of Changes in Equity
Nine Months Ended December 31, 2016
(U.S. Dollars in Thousands, except unit amounts)

		Limited Partners				
	General Partner	Common Units	Amount	Accumulated Other Comprehensive (Loss) Income	Noncontrolling Interests	Total Equity
BALANCES AT MARCH 31, 2016	$(50,811)	104,169,573	$1,707,326	$ (157)	$ 37,707	$1,694,065
Distributions to partners	(213)	—	(131,922)	—	—	(132,135)
Distributions to noncontrolling interest owners	—	—	—	—	(3,292)	(3,292)
Contributions	59	—	(501)	—	1,140	698
Business combinations		218,617	3,947	—	—	3,947
Purchase of noncontrolling interest (Notes 4 and 15)	—	—	(215)	—	(12,602)	(12,817)
Equity issued pursuant to incentive compensation plan	—	2,350,082	61,646	—	—	61,646
Common units issued, net of offering costs	—	2,353,438	43,896	—	—	43,896
Allocation of value to beneficial conversion feature of Class A convertible preferred units	—	—	131,534	—	—	131,534
Issuance of warrants	—	—	48,550	—	—	48,550
Accretion of beneficial conversion feature of Class A convertible preferred units	—	—	(6,265)	—	—	(6,265)
Net income	180	—	111,117	—	6,091	117,388
Other comprehensive income	—	—	—	60	—	60
BALANCES AT DECEMBER 31, 2016	$(50,785)	109,091,710	$1,969,113	$ (97)	$ 29,044	$1,947,275

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

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NGL ENERGY PARTNERS LP AND SUBSIDIARIES
Unaudited Condensed Consolidated Statements of Cash Flows
(U.S. Dollars in Thousands)

	Nine Months Ended December 31, 2016	As Restated 2015
OPERATING ACTIVITIES:		
Net income	$117,388	$19,888
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization, including amortization of debt issuance costs	173,566	191,081
Gain on early extinguishment or revaluation of liabilities	(30,890)	(46,416)
Gain on termination of contract	(16,205)	—
Non-cash equity-based compensation expense	39,859	50,080
(Gain) loss on disposal or impairment of assets, net	(203,433)	3,040
Provision for doubtful accounts	471	3,770
Net adjustments to fair value of commodity derivatives	102,638	(97,069)
Equity in earnings of unconsolidated entities	(1,726)	(14,008)
Distributions of earnings from unconsolidated entities	2,094	15,742
Revaluation of investments	14,365	—
Other	(3,269)	(4,395)
Changes in operating assets and liabilities, exclusive of acquisitions:		
Accounts receivable-trade and affiliates	(245,065)	454,686
Inventories	(244,941)	29,236
Other current and noncurrent assets	(65,331)	19,806
Accounts payable-trade and affiliates	245,506	(337,334)
Other current and noncurrent liabilities	(2,692)	5,027
Net cash (used in) provided by operating activities	(117,665)	293,134
INVESTING ACTIVITIES:		
Capital expenditures	(264,580)	(497,147)
Acquisitions, net of cash acquired	(127,513)	(187,356)
Cash flows from settlements of commodity derivatives	(82,815)	92,216
Proceeds from sales of assets	14,195	4,981
Proceeds from sale of TLP common units	112,370	—
Proceeds from sale of freshwater supply company	22,000	—
Investments in unconsolidated entities	—	(8,373)
Distributions of capital from unconsolidated entities	7,608	14,043
Loan for natural gas liquids facility	—	(3,913)
Payments on loan for natural gas liquids facility	6,585	5,552
Loan to affiliate	(2,700)	(15,621)
Payments on loan to affiliate	655	517
Payment to terminate development agreement	(16,875)	—
Net cash used in investing activities	(331,070)	(595,101)
FINANCING ACTIVITIES:		
Proceeds from borrowings under revolving credit facilities	1,176,000	2,042,100
Payments on revolving credit facilities	(1,510,500)	(1,514,100)
Issuance of senior notes	700,000	—

Repurchases of senior notes	(15,129)	—
Proceeds from borrowings under other long-term debt	—	53,223
Payments on other long-term debt	(6,549)	(3,649)
Debt issuance costs	(12,608)	(9,684)
Contributions from general partner	59	54
Contributions from noncontrolling interest owners, net	639	10,037
Distributions to partners	(132,135)	(238,414)
Distributions to noncontrolling interest owners	(3,292)	(26,638)
Proceeds from sale of convertible preferred units and warrants, net of offering costs	234,989	—

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Proceeds from sale of common units, net of offering costs	43,896	—
Payments for the early extinguishment of liabilities	(25,884)	—
Taxes paid on behalf of equity incentive plan participants	—	(19,303)
Common unit repurchases	—	(7,707)
Other	—	(76)
Net cash provided by financing activities	449,486	285,843
Net increase (decrease) in cash and cash equivalents	751	(16,124)
Cash and cash equivalents, beginning of period	28,176	41,303
Cash and cash equivalents, end of period	$28,927	$25,179
Supplemental cash flow information:		
Cash interest paid	$89,102	$90,217
Income taxes paid (net of income tax refunds)	$1,985	$1,778
Supplemental non-cash investing and financing activities:		
Value of common units issued in business combinations	$3,947	$19,098
Accrued capital expenditures	$2,754	$9,139

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

NGL ENERGY PARTNERS LP AND SUBSIDIARIES
Notes to Unaudited Condensed Consolidated Financial Statements
At December 31, 2016 and March 31, 2016, and for the
Three Months and Nine Months Ended December 31, 2016 and 2015

Note 1—Organization and Operations

NGL Energy Partners LP ("we," "us," "our," or the "Partnership") is a Delaware limited partnership. NGL Energy Holdings LLC serves as our general partner. At December 31, 2016, our operations include:

- Our Crude Oil Logistics segment, the assets of which include owned and leased crude oil storage terminals and pipeline injection stations, a fleet of owned trucks and trailers, a fleet of owned and leased railcars, a fleet of owned barges and towboats, and interests in two crude oil pipelines, purchases crude oil from producers and transports it to refineries or for resale at owned and leased pipeline injection stations, storage terminals, barge loading facilities, rail facilities, refineries, and other trade hubs.
- Our Water Solutions segment, the assets of which include water pipelines, water treatment and disposal facilities, washout facilities, and solid waste disposal facilities, provides services for the treatment and disposal of wastewater generated from crude oil and natural gas production and for the disposal of solids such as tank bottoms and drilling fluids and performs truck washouts. In addition, our Water Solutions segment sells the recovered hydrocarbons that result from performing these services.
- Our Liquids segment supplies natural gas liquids to retailers, wholesalers, refiners, and petrochemical plants throughout the United States and in Canada using its leased underground storage and fleet of leased railcars, markets regionally through its 18 owned terminals throughout the United States, and provides terminaling and storage services at its salt dome storage facility in Utah.
- Our Retail Propane segment sells propane, distillates, and equipment and supplies to end users consisting of residential, agricultural, commercial, and industrial customers and to certain resellers in 28 states and the District of Columbia.
- Our Refined Products and Renewables segment conducts gasoline, diesel, ethanol, and biodiesel marketing operations, purchases refined petroleum and renewable products primarily in the Gulf Coast, Southeast and Midwest regions of the United States and schedules them for delivery at various locations.

Recent Developments

On February 1, 2016, we completed the sale of our general partner interest in TransMontaigne Partners L.P. ("TLP") to an affiliate of ArcLight Capital Partners ("ArcLight"). As a result, on February 1, 2016, we deconsolidated TLP and began to account for our limited partner investment in TLP using the equity method of accounting (see Note 2). As TLP was previously a consolidated entity, our unaudited condensed consolidated statements of operations for the three months and nine months ended December 31, 2015 included TLP's operations and income attributable to the noncontrolling interests of TLP. On April 1, 2016, we sold all of the TLP common units we owned to ArcLight (see Note 2).

Note 2—Significant Accounting Policies

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements include our accounts and those of our controlled subsidiaries. Intercompany transactions and account balances have been eliminated in consolidation. Investments we cannot control, but can exercise significant influence over, are accounted for using the equity method of accounting. We also own an undivided interest in a crude oil pipeline, and include our proportionate share of assets, liabilities, and expenses related to this pipeline in our unaudited condensed consolidated financial statements.

Our unaudited condensed consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States ("GAAP") for interim consolidated financial information in accordance with the rules and regulations of the Securities and Exchange Commission ("SEC"). Accordingly, the unaudited condensed consolidated financial statements exclude certain information and notes required by GAAP for complete annual consolidated financial statements. However, we believe that the disclosures made are adequate to make the information presented not misleading. The unaudited condensed consolidated financial statements include all adjustments that we consider necessary for a fair presentation of our consolidated financial position and results of operations for the interim periods presented. Such adjustments consist only of normal recurring items, unless otherwise disclosed in this Quarterly Report. The unaudited condensed consolidated balance sheet at March 31, 2016 was derived from our audited consolidated financial statements for the fiscal year ended March 31, 2016 included in our Annual Report on Form 10-K ("Annual Report").

As previously reported, subsequent to the issuance of certain previously issued financial statements, in the fourth quarter of fiscal year 2016, we determined that there were errors in those financial statements from not recording certain contingent consideration liabilities related to royalty agreements assumed as part of acquisitions in our Water Solutions segment. The effect of the error was material to the financial statements for each of the first three quarters of the fiscal year ended March 31, 2016, so those quarters have been restated for the effects of the error correction. We have restated our previously issued unaudited condensed consolidated statements of operations and unaudited condensed consolidated statements of comprehensive income (loss) for the three months and nine months ended December 31, 2015 and unaudited condensed consolidated statement of cash flows for the nine months ended December 31, 2015. See Note 17 in our Annual Report for a summary of the impact of the error correction for the three months and nine months ended December 31, 2015.

These interim unaudited condensed consolidated financial statements should be read in conjunction with our audited consolidated financial statements and notes thereto included in our Annual Report. Due to the seasonal nature of certain of our operations and other factors, the results of operations for interim periods are not necessarily indicative of the results of operations to be expected for future periods or for the full fiscal year ending March 31, 2017.

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the amount of assets and liabilities reported at the date of the consolidated financial statements and the amount of revenues and expenses reported during the periods presented.

Critical estimates we make in the preparation of our unaudited condensed consolidated financial statements include, among others, determining the fair value of assets and liabilities acquired in business combinations, the collectibility of accounts receivable, the recoverability of inventories, useful lives and recoverability of property, plant and equipment and amortizable intangible assets, the impairment of assets, the fair value of asset retirement obligations, the value of equity-based compensation, and accruals for various commitments and contingencies. Although we believe these estimates are reasonable, actual results could differ from those estimates.

Significant Accounting Policies

Our significant accounting policies are consistent with those disclosed in Note 2 of our audited consolidated financial statements included in our Annual Report.

Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the measurement date. Fair value is based upon assumptions that market participants would use when pricing an asset or liability. We use the following fair value hierarchy, which prioritizes valuation technique inputs used to measure fair value into three broad levels:

- Level 1: Quoted prices in active markets for identical assets and liabilities that we have the ability to access at the measurement date.

- Level 2: Inputs (other than quoted prices included within Level 1) that are either directly or indirectly observable for the asset or liability, including (i) quoted prices for similar assets or liabilities in active markets, (ii) quoted prices for identical or similar assets or liabilities in inactive markets, (iii) inputs other than quoted prices that are observable for the asset or liability, and (iv) inputs that are derived from observable market data by correlation or other means. Instruments categorized in Level 2 include non-exchange traded derivatives such as over-the-counter commodity price swap and option contracts. We determine the fair value of all of our derivative financial instruments utilizing pricing models for similar instruments. Inputs to the pricing models include publicly available prices and forward curves generated from a compilation of data gathered from third parties.
- Level 3: Unobservable inputs for the asset or liability including situations where there is little, if any, market activity for the asset or liability.

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The fair value hierarchy gives the highest priority to quoted prices in active markets (Level 1) and the lowest priority to unobservable inputs (Level 3). In some cases, the inputs used to measure fair value might fall into different levels of the fair value hierarchy. The lowest level input that is significant to a fair value measurement determines the applicable level in the fair value hierarchy. Assessing the significance of a particular input to a fair value measurement requires judgment, considering factors specific to the asset or liability.

Derivative Financial Instruments

We record all derivative financial instrument contracts at fair value in our unaudited condensed consolidated balance sheets except for certain contracts that qualify for the normal purchase and normal sale election. Under this accounting policy election, we do not record the contracts at fair value at each balance sheet date; instead, we record the purchase or sale at the contracted value once the delivery occurs.

We have not designated any financial instruments as hedges for accounting purposes. All changes in the fair value of our commodity derivative instruments that do not qualify as normal purchases and normal sales (whether cash transactions or non-cash mark-to-market adjustments) are reported within cost of sales in our unaudited condensed consolidated statements of operations, regardless of whether the contract is physically or financially settled.

We utilize various commodity derivative financial instrument contracts to attempt to reduce our exposure to price fluctuations. We do not enter into such contracts for trading purposes. Changes in assets and liabilities from commodity derivative financial instruments result primarily from changes in market prices, newly originated transactions, and the timing of settlements. We attempt to balance our contractual portfolio in terms of notional amounts and timing of performance and delivery obligations. However, net unbalanced positions can exist or are established based on our assessment of anticipated market movements. Inherent in the resulting contractual portfolio are certain business risks, including commodity price risk and credit risk. Commodity price risk is the risk that the market value of crude oil, natural gas liquids, or refined products will change, either favorably or unfavorably, in response to changing market conditions. Credit risk is the risk of loss from nonperformance by suppliers, customers or financial counterparties to a contract. Procedures and limits for managing commodity price risks and credit risks are specified in our market risk policy and credit risk policy, respectively. Open commodity positions and market price changes are monitored daily and are reported to senior management and to marketing operations personnel. Credit risk is monitored daily and exposure is minimized through customer deposits, restrictions on product liftings, letters of credit, and entering into master netting agreements that allow for offsetting counterparty receivable and payable balances for certain transactions.

Revenue Recognition

We record product sales revenues when title to the product transfers to the purchaser, which typically occurs when the purchaser receives the product. We record terminaling, transportation, storage, and service revenues when the service is performed, and we record tank and other rental revenues over the lease term. Revenues for our Water Solutions segment are recognized when we obtain the wastewater at our treatment and disposal facilities.

We report taxes collected from customers and remitted to taxing authorities, such as sales and use taxes, on a net basis. We include amounts billed to customers for shipping and handling costs in revenues in our unaudited condensed consolidated statements of operations. We enter into certain contracts whereby we agree to purchase product from a counterparty and sell the same volume of product to the same counterparty at a different location or time. When such agreements are entered into at the same time and in contemplation of each other, we record the revenues for these transactions net of cost of sales.

Revenues during the three months ended December 31, 2016 and 2015 include $1.2 million and $1.5 million, respectively, and revenues during the nine months ended December 31, 2016 and 2015 include $3.7 million and $4.4 million, respectively, associated with the amortization of a liability recorded in the acquisition accounting for an acquired business related to certain out-of-market revenue contracts.

Inventories

We value our inventories at the lower of cost or market, with cost determined using either the weighted-average cost or the first in, first out (FIFO) methods, including the cost of transportation and storage. Market is determined based on estimated

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replacement cost using prices at the end of the reporting period. In performing this analysis, we consider fixed-price forward commitments and the opportunity to transfer propane inventory from our wholesale Liquids business to our Retail Propane business to sell the inventory in retail markets.

Inventories consist of the following at the dates indicated:

	December 31, 2016	March 31, 2016
	(in thousands)	
Crude oil	$95,011	$84,030
Natural gas liquids:		
Propane	86,909	28,639
Butane	22,452	8,461
Other	4,724	6,011
Refined products:		
Gasoline	164,570	80,569
Diesel	177,039	99,398
Renewables	53,563	52,458
Other	9,725	8,240
Total	$613,993	$367,806

Investments in Unconsolidated Entities

Investments we cannot control, but can exercise significant influence over, are accounted for using the equity method of accounting. Under the equity method, we do not report the individual assets and liabilities of these entities on our unaudited condensed consolidated balance sheets; instead, our ownership interests are reported within investments in unconsolidated entities on our unaudited condensed consolidated balance sheets. Under the equity method, the investment is recorded at acquisition cost, increased by our proportionate share of any earnings and additional capital contributions and decreased by our proportionate share of any losses, distributions paid, and amortization of any excess investment. Excess investment is the amount by which our total investment exceeds our proportionate share of the historical net book value of the net assets of the investee. We use the cumulative earnings approach to classify distributions received from unconsolidated entities as either operating activities or investing activities in our unaudited condensed consolidated statements of cash flows.

On April 1, 2016, we sold all of the TLP common units we owned to ArcLight for approximately $112.4 million in cash and recorded a gain on disposal of $104.1 million during the nine months ended December 31, 2016.

Our investments in unconsolidated entities consist of the following at the dates indicated:

Entity	Segment	Ownership Interest	Date Acquired or Formed	December 31, 2016	March 31, 2016
				(in thousands)	
Glass Mountain (1)	Crude Oil Logistics	50%	December 2013	$172,065	$179,594
Ethanol production facility	Refined Products and Renewables	19%	December 2013	12,921	12,570
Water treatment and disposal facility	Water Solutions	50%	August 2015	2,159	2,238
Retail propane company	Retail Propane	50%	April 2015	369	972

TLP (2)	Refined Products and Renewables	0%	July 2014	—	8,301
Freshwater supply company (3)	Water Solutions	100%	June 2014	—	15,875
Total				$187,514	$219,550

(1) When we acquired Gavilon, LLC, ("Gavilon Energy"), we recorded the investment in Glass Mountain Pipeline, LLC ("Glass Mountain"), which owns a crude oil pipeline in Oklahoma, at fair value. Our investment in Glass Mountain exceeds our proportionate share of the historical net book value of Glass Mountain's net assets by $73.1 million at December 31, 2016. This difference relates primarily to goodwill and customer relationships.

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(2) On April 1, 2016, we sold all of the TLP common units we owned.

(3) On June 3, 2016, we acquired the remaining 65% ownership interest in the freshwater supply company, and as a result, the freshwater supply company was consolidated in our unaudited condensed consolidated financial statements (see Note 4). On November 29, 2016, we sold this freshwater supply company.

Other Noncurrent Assets

Other noncurrent assets consist of the following at the dates indicated:

	December 31, 2016	March 31, 2016
	(in thousands)	
Loan receivable (1)	$42,410	$49,827
Tank bottoms (2)	42,044	42,044
Line fill (3)	43,015	35,060
Other	123,900	49,108
Total	$251,369	$176,039

(1) Represents a loan receivable associated with our financing of the construction of a natural gas liquids facility to be utilized by a third party.

(2) Tank bottoms, which are product volumes required for the operation of storage tanks, are recorded at historical cost. We recover tank bottoms when the storage tanks are removed from service. At December 31, 2016 and March 31, 2016, tank bottoms held in third party terminals consisted of 366,212 barrels and 366,212 barrels of refined products, respectively. Tank bottoms held in terminals we own are included within property, plant and equipment (see Note 5).

(3) Represents minimum volumes of crude oil we are required to leave on certain third-party owned pipelines under long-term shipment commitments. At December 31, 2016 and March 31, 2016, line fill consisted of 582,807 barrels and 487,104 barrels of crude oil, respectively.

Accrued Expenses and Other Payables

Accrued expenses and other payables consist of the following at the dates indicated:

	December 31, 2016	March 31, 2016
	(in thousands)	
Accrued compensation and benefits	$16,539	$40,517
Excise and other tax liabilities	55,451	59,455
Derivative liabilities	40,813	28,612
Accrued interest	27,767	20,543
Product exchange liabilities	9,355	5,843
Deferred gain on sale of general partner interest in TLP	30,113	30,113
Other	15,995	29,343
Total	$196,033	$214,426

Sale of General Partner Interest in TLP

As previously reported, on February 1, 2016, we completed the sale of our general partner interest in TLP to ArcLight and deferred a portion of the gain on the sale and will recognize this amount over our future lease payment obligations, which is approximately seven years. During the three months and nine months ended December 31, 2016, we recognized $7.5 million and $22.6 million, respectively, of the deferred gain in our unaudited condensed consolidated statements of operations. Within our unaudited condensed consolidated balance sheet, the current portion of the deferred gain, $30.1 million, is recorded in accrued expenses and other payables and the long-term portion, $146.8 million, is recorded in other noncurrent liabilities.

Noncontrolling Interests

We have certain consolidated subsidiaries in which outside parties own interests. The noncontrolling interest shown in our unaudited condensed consolidated financial statements represents the other owners' interests in these entities.

Business Combination Measurement Period

We record the assets acquired and liabilities assumed in a business combination at their acquisition date fair values. Pursuant to GAAP, an entity is allowed a reasonable period of time (not to exceed one year) to obtain the information necessary to identify and measure the value of the assets acquired and liabilities assumed in a business combination. As discussed in Note 4, certain of our acquisitions are still within this measurement period, and as a result, the acquisition date fair values we have recorded for the assets acquired and liabilities assumed are subject to change.

Also, as discussed in Note 4, we made certain adjustments during the three months ended December 31, 2016 to our estimates of the acquisition date fair values of assets acquired and liabilities assumed in business combinations that occurred during the fiscal year ended March 31, 2016.

In September 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2015-16, "Simplifying the Accounting Adjustments for Measurement-Period Adjustments." The ASU requires that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. This ASU requires that the acquirer record, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. The ASU was effective for the Partnership beginning April 1, 2016, and required a prospective method of adoption.

Reclassifications

We have reclassified certain prior period financial statement information to be consistent with the classification methods used in the current fiscal year. These reclassifications did not impact previously reported amounts of equity, net income, or cash flows.

Recent Accounting Pronouncements

In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments-Credit Losses." The ASU requires a financial asset (or a group of financial assets) measured at amortized cost to be presented at the net amount expected to be collected. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectibility of the reported amount. The ASU is effective for the Partnership beginning April 1, 2020, and requires a modified retrospective method of adoption, although early adoption is permitted. We are in the process of assessing the impact of this ASU on our consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, "Leases." The ASU will replace previous lease accounting guidance in GAAP. The ASU requires the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases. The ASU retains a distinction between finance leases and operating leases. The ASU is effective for the Partnership beginning April 1, 2019, and requires a modified retrospective method of adoption. We are in the process of assessing the impact of this ASU on our consolidated financial statements.

In July 2015, the FASB issued ASU No. 2015-11, “Simplifying the Measurement of Inventory.” The ASU requires that inventory within the scope of the guidance be measured at the lower of cost or net realizable value. The ASU is effective for the Partnership beginning April 1, 2017, and requires a prospective method of adoption, although early adoption is permitted. We do not expect the adoption of this ASU to have a material impact on our consolidated financial position or results of operations.

In May 2014, the FASB issued ASU No. 2014-09, “Revenue from Contracts with Customers.” The ASU will replace most existing revenue recognition guidance in GAAP. The core principle of this ASU is that an entity should recognize revenue for the transfer of goods or services equal to the amount that it expects to be entitled to receive for those goods or services. The ASU is effective for the Partnership beginning April 1, 2018, and allows for both full retrospective and modified retrospective

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methods of adoption. We are in the process of determining the method of adoption and assessing the impact of this ASU on our consolidated financial statements.

Note 3—Income (Loss) Per Common Unit

Our income (loss) per common unit is as follows for the periods indicated:

		As Restated		As Restated
	Three Months Ended December 31,		Nine Months Ended December 31,	
	2016	2015	2016	2015
	(in thousands, except unit and per unit amounts)			
Net income	$ 1,293	$ 50,995	$ 117,388	$ 19,888
Less: Net income attributable to noncontrolling interests	(317)	(6,838)	(6,091)	(14,685)
Net income attributable to NGL Energy Partners LP	976	44,157	111,297	5,203
Less: Distributions to preferred unitholders	(8,906)	—	(20,958)	—
Less: Net income allocated to general partner (1)	(22)	(16,239)	(180)	(47,798)
Net (loss) income allocated to common unitholders (basic)	(7,952)	27,918	90,159	(42,595)
Effect of dilutive securities	—	(3,967)	—	—
Net (loss) income allocated to common unitholders (diluted)	$ (7,952)	$ 23,951	$ 90,159	$ (42,595)
Basic (loss) income per common unit	$ (0.07)	$ 0.27	$ 0.85	$ (0.41)
Diluted (loss) income per common unit	$ (0.07)	$ 0.22	$ 0.82	$ (0.41)
Basic weighted average common units outstanding (2)	107,966,901	105,338,200	106,114,668	104,808,649
Diluted weighted average common units outstanding (2)	107,966,901	106,194,547	109,554,928	104,808,649

(1) Net income allocated to the general partner includes distributions to which it is entitled as the holder of incentive distribution rights, which are discussed in Note 11.
(2) The basic and diluted weighted average common units outstanding for the three months and nine months ended December 31, 2015 were not restated.

The following table presents our calculation of basic and diluted units outstanding for the periods indicated:

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2016	2015	2016	2015
Weighted average units outstanding during the period:				
Common units - Basic	107,966,901	105,338,200	106,114,668	104,808,649
Effect of Dilutive Securities:				
Performance units	—	—	111,826	—
Warrants	—	—	3,328,434	—
Restricted units	—	856,347	—	—
Common units - Diluted	107,966,901	106,194,547	109,554,928	104,808,649

For the nine months ended December 31, 2016, the convertible preferred units were considered antidilutive.

Note 4—Acquisitions

The following summarizes our acquisitions made during the nine months ended December 31, 2016.

Water Solutions Facilities

During the nine months ended December 31, 2016, we acquired three water solutions facilities and paid $26.9 million of cash. In addition, we have recorded contingent consideration liabilities within accrued expenses and other payables and other

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noncurrent liabilities related to future royalty payments due to the sellers of one of these facilities. We estimated the contingent consideration based on the contracted royalty rate, which is a flat rate per disposal barrel and percentage of oil revenues, multiplied by the expected disposal volumes and oil revenue for the expected useful life of the facility and disposal well. This amount was then discounted to present value using our weighted average cost of capital plus a premium representative of the uncertainty associated with the expected disposal volumes and oil revenue. As of the acquisition date, we recorded a contingent liability of $2.6 million.

We assumed a land lease with a royalty component as part of the acquisition of one of the facilities. The acquisition method of accounting requires that executory contracts with unfavorable terms relative to market conditions at the acquisition date be recorded as assets or liabilities in the acquisition accounting. We recorded a liability to other noncurrent liabilities of $2.8 million related to this lease due to the royalty terms being deemed unfavorable. We will amortize this liability based on the volumes processed by the facility.

We are in the process of identifying and determining the fair values of the assets acquired and liabilities assumed for these water solutions facilities, and as a result, the estimates of fair value at December 31, 2016 are subject to change. The following table summarizes the preliminary estimates of the fair values of the assets acquired and liabilities assumed (in thousands):

Property, plant and equipment	$15,636
Goodwill	12,918
Intangible assets	3,878
Current liabilities	(314)
Other noncurrent liabilities	(5,222)
Fair value of net assets acquired	$26,896

Goodwill represents a premium paid to expand the number of our disposal sites in an oilfield production basin currently serviced by us, thereby enhancing our competitive position as a provider of disposal services in this oilfield production basin. We estimate that all of the goodwill will be deductible for federal income tax purposes.

Acquisition of Remaining Interest in Water Solutions Facilities

On September 15, 2016, we acquired the remaining 25% ownership interest in three water solutions facilities and paid $10.0 million of cash. The acquisition of the remaining interest was accounted for as an equity transaction, no gain or loss was recorded and the carrying value of the noncontrolling interest was adjusted to reflect the change in ownership interest of the subsidiary. As of the date of the transaction, the 25% interest had a carrying value of $7.4 million.

Water Pipeline Company

As discussed below, on January 7, 2016, we acquired a 57.125% interest in an existing produced water pipeline company operating in the Delaware Basin portion of West Texas. On June 3, 2016, we acquired an additional 24.5% interest in this water pipeline company as part of the purchase and sale agreement discussed in Note 15. As we control this entity (and continue to retain our controlling financial interest), the acquisition of the additional interest was accounted for as an equity transaction, no gain or loss was recorded and the carrying value of the noncontrolling interest was adjusted to reflect the change in ownership interest of the subsidiary. As of the date of the transaction, the 24.5% interest had a carrying value of $5.2 million.

Freshwater Supply Company

On June 3, 2016, we acquired the remaining 65% ownership interest in a freshwater supply company (see Note 2). In exchange for this additional interest, we paid $1.0 million of cash and assumed an outstanding note payable, which relates to money this entity previously borrowed from us. Prior to the completion of this transaction, we accounted for our previously held 35% ownership interest of this freshwater supply company using the equity method of accounting (see Note 2). As we owned a controlling interest in this entity, we revalued our previously held 35% ownership interest to fair value of $0.8 million and recorded a loss of $14.9 million, which is recorded within revaluation of investments in our unaudited condensed consolidated statement of operations. As the amount paid (cash plus the fair value of our previously held ownership interest) was less than the fair value of the assets acquired and liabilities assumed, we recorded a gain on bargain purchase of $0.6 million within revaluation of investments in our unaudited condensed consolidated statement of operations.

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The following table summarizes the fair values of the assets acquired and liabilities assumed (in thousands):

Current assets	$ 1,713
Property, plant and equipment	8,874
Intangible asset	14,472
Current liabilities	(2,765)
Notes payable-intercompany	(19,900)
Fair value of net assets acquired	$ 2,394

On November 29, 2016, we sold this freshwater supply company. We received proceeds of $22.0 million and recorded a loss on the sale of $2.3 million during the three months ended December 31, 2016.

Retail Propane Businesses

During the nine months ended December 31, 2016, we acquired four retail propane businesses and paid $81.0 million of cash and issued 218,617 common units, valued at $4.0 million. The agreements for these acquisitions contemplate post-closing payments for certain working capital items.

We are in the process of identifying and determining the fair values of the assets acquired and liabilities assumed in these business combinations, and as a result, the estimates of fair value at December 31, 2016 are subject to change. The following table summarizes the preliminary estimates of the fair values of the assets acquired and liabilities assumed (in thousands):

Current assets	$4,467
Property, plant and equipment	35,219
Goodwill	10,286
Intangible assets	43,860
Current liabilities	(6,621)
Other noncurrent liabilities	(2,207)
Fair value of net assets acquired	$85,004

Goodwill represents the excess of the consideration paid for the acquired businesses over the fair value of the individual assets acquired, net of liabilities assumed. Goodwill represents a premium paid to acquire the skilled workforce of each of the businesses acquired and the ability to expand into new markets. We estimate that all of the goodwill will be deductible for federal income tax purposes.

The following summarizes certain adjustments made during the nine months ended December 31, 2016, to the preliminary purchase price allocation of acquisitions made prior to April 1, 2016.

Water Pipeline Company

During the nine months ended December 31, 2016, we finalized the purchase price accounting for the 57.125% interest acquired in a water pipeline company on January 7, 2016. During the nine months ended December 31, 2016, we recorded an adjustment to reclassify approximately $1.1 million from property, plant and equipment to intangible assets, in order to present the fair value of the acquired rights-of-way as a finite-lived asset, which is consistent with our historical accounting policies, and we recorded an adjustment of $0.3 million to other noncurrent liabilities and goodwill to recognize an asset retirement obligation. In addition, we paid $1.0 million in cash to the seller during the nine months ended December 31, 2016 for consideration that was held back at the acquisition date, which we recorded as a liability to accrued expenses and other payables. There have been no other adjustments to the fair value of assets acquired and liabilities assumed which were disclosed in our Annual Report.

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Delaware Basin Water Solutions Facilities

During the three months ended June 30, 2016, we finalized the purchase price accounting for the four saltwater disposal facilities and a 50% interest in an additional saltwater disposal facility in the Delaware Basin of the Permian Basin in Texas we acquired on August 24, 2015. There have been no adjustments to the fair value of assets acquired and liabilities assumed which were disclosed in our Annual Report.

Water Solutions Facilities

During the three months ended June 30, 2016, we finalized the purchase price accounting for nine water facilities acquired under the development agreement during the fiscal year ended March 31, 2016. During the nine months ended December 31, 2016, we received additional information and recorded an adjustment of $1.4 million to property, plant and equipment and goodwill to recognize the fair value of additional assets that we acquired. In addition, we paid $1.0 million in cash to the seller during the three months ended June 30, 2016 for consideration that was held back at the acquisition date, which we recorded as a liability to accrued expenses and other payables.

Retail Propane Businesses

During the nine months ended December 31, 2016, we finalized the purchase price accounting for five retail propane businesses we acquired during the fiscal year ended March 31, 2016 and paid $0.5 million in cash to sellers during the nine months ended December 31, 2016 for consideration that was held back at the acquisition date, which we recorded as a liability to accrued expenses and other payables.

Note 5—Property, Plant and Equipment

Our property, plant and equipment consists of the following at the dates indicated:

Description	Estimated Useful Lives	December 31, 2016	March 31, 2016
		(in thousands)	
Natural gas liquids terminal and storage assets	2–30 years	$171,186	$169,758
Pipeline and related facilities	30–40 years	220,207	—
Refined products terminal assets and equipment	20 years	6,736	6,844
Retail propane equipment	2–30 years	233,643	201,312
Vehicles and railcars	3–25 years	196,798	185,547
Water treatment facilities and equipment	3–30 years	550,928	508,239
Crude oil tanks and related equipment	2–40 years	182,872	137,894
Barges and towboats	5–40 years	89,084	86,731
Information technology equipment	3–7 years	41,298	38,653
Buildings and leasehold improvements	3–40 years	150,966	118,885
Land		49,276	47,114
Tank bottoms		12,093	20,355
Other	3–30 years	47,051	11,699
Construction in progress		142,923	383,032
		2,095,061	1,916,063
Accumulated depreciation		(348,136)	(266,491)
Net property, plant and equipment		$1,746,925	$1,649,572

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The following table summarizes depreciation expense and capitalized interest expense for the periods indicated:

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2016	2015	2016	2015
	(in thousands)			
Depreciation expense	$32,039	$35,443	$88,396	$105,707
Capitalized interest expense	$1,429	$761	$6,233	$1,451

Tank bottoms, which are product volumes required for the operation of storage tanks, are recorded at historical cost. We recover tank bottoms when the storage tanks are removed from service. The following table summarizes the tank bottoms included in the table above at the dates indicated:

	December 31, 2016		March 31, 2016	
Product	Volume (in barrels) (in thousands)	Value (in thousands)	Volume (in barrels) (in thousands)	Value (in thousands)
Crude oil	132	$ 11,108	231	$ 19,348
Other	27	985	24	1,007
Total		$ 12,093		$ 20,355

Loss on Disposal of Assets

During the three months and nine months ended December 31, 2016, we recorded losses of $5.2 million and $16.0 million, respectively, due primarily to the sales and write-down of certain assets in our Crude Oil Logistics, Water Solutions and Refined Products and Renewables segments. During the three months and nine months ended December 31, 2015, we recorded losses of $0.2 million and $1.9 million, respectively, due primarily to the sales of certain assets in our Crude Oil Logistics and Water Solutions segments. These losses are reported within loss (gain) on disposal or impairment of assets, net in our unaudited condensed consolidated statements of operations.

Note 6—Goodwill

The following table summarizes changes in goodwill by segment during the nine months ended December 31, 2016:

	Crude Oil Logistics	Water Solutions	Liquids	Retail Propane	Refined Products and Renewables	Total
	(in thousands)					
Balances at March 31, 2016	$579,846	$290,915	$266,046	$127,428	$ 51,127	$1,315,362
Revisions to acquisition accounting (Note 4)	—	(1,110)	—	(2)	—	(1,112)
Acquisitions (Note 4)	—	12,918	—	10,286	—	23,204
Adjustment to initial impairment estimate	—	124,662	—	—	—	124,662
Balances at December 31, 2016	$579,846	$427,385	$266,046	$137,712	$ 51,127	$1,462,116

Goodwill Adjustment to Initial Impairment Estimate

During the three months ended March 31, 2016, we recorded a preliminary goodwill impairment charge of $380.2 million. During the three months ended June 30, 2016, we finalized our goodwill impairment analysis, with the assistance of a third party valuation firm. As a result of finalizing our analysis, we determined that we needed to reverse $124.7 million of the previously recorded goodwill impairment recorded during the three months ended March 31, 2016. The reversal was due primarily to the change in the fair value of our customer relationship intangible assets. With the assistance of the third party valuation firm, inputs such as revenue growth rates and attrition rates related to existing customers were refined and resulted in a lower fair value allocated to customer relationships than in our preliminary calculation. We recorded the reversal within loss (gain) on disposal or impairment of assets, net in our unaudited condensed consolidated statement of operations.

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Note 7—Intangible Assets

Our intangible assets consist of the following at the dates indicated:

Description	Amortizable Lives	December 31, 2016 Gross Carrying Amount (in thousands)	December 31, 2016 Accumulated Amortization	December 31, 2016 Net	March 31, 2016 Gross Carrying Amount	March 31, 2016 Accumulated Amortization	March 31, 2016 Net
Amortizable:							
Customer relationships	3–20 years	$889,496	$ 294,652	$594,844	$852,118	$ 233,838	$618,280
Customer commitments	10 years	310,000	5,167	304,833	—	—	—
Pipeline capacity rights	30 years	161,786	10,304	151,482	119,636	6,559	113,077
Rights-of-way and easements	1–40 years	61,888	1,295	60,593	—	—	—
Water facility development agreement	5 years	—	—	—	14,000	7,700	6,300
Executory contracts and other agreements	5–30 years	22,713	20,114	2,599	23,920	21,075	2,845
Non-compete agreements	2–32 years	32,784	16,395	16,389	20,903	13,564	7,339
Trade names	1–10 years	15,439	13,305	2,134	15,439	12,034	3,405
Debt issuance costs (1)	3 years	39,980	27,285	12,695	39,942	22,108	17,834
Total amortizable		1,534,086	388,517	1,145,569	1,085,958	316,878	769,080
Non-amortizable:							
Customer commitments (2)		—	—	—	310,000	—	310,000
Rights-of-way and easements (2)		—	—	—	47,190	—	47,190
Trade names		19,180	—	19,180	22,620	—	22,620
Total non-amortizable		19,180	—	19,180	379,810	—	379,810
Total		$1,553,266	$ 388,517	$1,164,749	$1,465,768	$ 316,878	$1,148,890

(1) Includes debt issuance costs related to the Revolving Credit Facility (as defined herein). Debt issuance costs related to fixed-rate notes are reported as a reduction of the carrying amount of long-term debt.
(2) Amounts moved to the amortizable section above due to the related assets being placed in service during the three months ended December 31, 2016.

The weighted-average remaining amortization period for intangible assets is approximately 9.1 years.

Write off of Intangible Assets

As a result of terminating the development agreement in the Water Solutions segment (see Note 15), we incurred a loss of $5.8 million to write off the water facility development agreement. During the three months ended June 30, 2016, we wrote-off $5.2 million related to the value of an indefinite-lived trade name intangible asset in conjunction with finalizing our goodwill impairment analysis (see Note 6). These losses are reported within loss (gain) on disposal or impairment of assets, net in our unaudited condensed consolidated statement of operations.

Amortization expense is as follows for the periods indicated:

Recorded In	Three Months Ended December 31, 2016	Three Months Ended December 31, 2015	Nine Months Ended December 31, 2016	Nine Months Ended December 31, 2015
	(in thousands)			
Depreciation and amortization	$28,728	$23,737	$71,880	$70,065
Cost of sales	1,753	1,701	5,098	5,102
Interest expense	1,721	4,834	5,177	7,788
Total	$32,202	$30,272	$82,155	$82,955

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

Year Ending March 31,	
2017 (three months)	$33,822
2018	132,843
2019	123,129
2020	115,343
2021	102,541
Thereafter	637,891
Total	$1,145,569

Note 8—Long-Term Debt

Our long-term debt consists of the following at the dates indicated:

	December 31, 2016			March 31, 2016		
	Face Amount	Unamortized Debt Issuance Costs (1)	Book Value	Face Amount	Unamortized Debt Issuance Costs (1)	Book Value
	(in thousands)					
Revolving credit facility:						
Expansion capital borrowings	$638,000	$ —	$638,000	$1,229,500	$ —	$1,229,500
Working capital borrowings	875,500	—	875,500	618,500	—	618,500
5.125% Notes due 2019	383,467	(3,595)	379,872	388,467	(4,681)	383,786
6.875% Notes due 2021	369,063	(6,186)	362,877	388,289	(7,545)	380,744
6.650% Notes due 2022	250,000	(2,929)	247,071	250,000	(3,166)	246,834
7.500% Notes due 2023	700,000	(11,750)	688,250	—	—	—
Other long-term debt	58,550	(114)	58,436	61,488	(108)	61,380
	3,274,580	(24,574)	3,250,006	2,936,244	(15,500)	2,920,744
Less: Current maturities	33,501	—	33,501	7,907	—	7,907
Long-term debt	$3,241,079	$ (24,574)	$3,216,505	$2,928,337	$ (15,500)	$2,912,837

(1) Debt issuance costs related to the Revolving Credit Facility (as defined herein) are reported within intangible assets, rather than as a reduction of the carrying amount of long-term debt.

Amortization expense for debt issuance costs related to long-term debt in the table above was $1.2 million and $0.8 million during the three months ended December 31, 2016 and 2015, respectively, and $3.0 million and $2.4 million during the nine months ended December 31, 2016 and 2015, respectively.

Expected amortization of debt issuance costs is as follows (in thousands):

Year Ending March 31,	
2017 (three months)	$1,304
2018	5,077
2019	4,937
2020	3,953
2021	3,539
Thereafter	5,764

Total	$24,574

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Credit Agreement

We have entered into a credit agreement (as amended, the "Credit Agreement") with a syndicate of banks. The Credit Agreement includes a revolving credit facility to fund working capital needs (the "Working Capital Facility") and a revolving credit facility to fund acquisitions and expansion projects (the "Expansion Capital Facility," and together with the Working Capital Facility, the "Revolving Credit Facility"). At December 31, 2016, our Revolving Credit Facility had a total capacity of $2.484 billion. Our Revolving Credit Facility has an "accordion" feature that allows us to increase the capacity by $150 million if new lenders wish to join the syndicate or if current lenders wish to increase their commitments.

The Expansion Capital Facility had a total capacity of $1.446 billion for cash borrowings at December 31, 2016. At that date, we had outstanding borrowings of $638.0 million on the Expansion Capital Facility. The Working Capital Facility had a total capacity of $1.038 billion for cash borrowings and letters of credit at December 31, 2016. At that date, we had outstanding borrowings of $875.5 million and outstanding letters of credit of $79.6 million on the Working Capital Facility. Amounts outstanding for letters of credit are not recorded as long-term debt on our unaudited condensed consolidated balance sheets, although they decrease our borrowing capacity under the Working Capital Facility. The capacity available under the Working Capital Facility may be limited by a "borrowing base" (as defined in the Credit Agreement), which is calculated based on the value of certain working capital items at any point in time.

The commitments under the Credit Agreement expire on November 5, 2018. We have the right to prepay outstanding borrowings under the Credit Agreement without incurring any penalties, and prepayments of principal may be required if we enter into certain transactions to sell assets or obtain new borrowings.

All borrowings under the Credit Agreement bear interest, at our option, at either (i) an alternate base rate plus a margin of 0.50% to 1.75% per year or (ii) an adjusted LIBOR rate plus a margin of 1.50% to 2.75% per year. The applicable margin is determined based on our consolidated leverage ratio (as defined in the Credit Agreement). At December 31, 2016, the borrowings under the Credit Agreement had a weighted average interest rate of 3.39%, calculated as the weighted LIBOR rate of 0.74% plus a margin of 2.50% for LIBOR borrowings and the prime rate of 3.75% plus a margin of 1.50% on alternate base rate borrowings. At December 31, 2016, the interest rate in effect on letters of credit was 2.50%. Commitment fees are charged at a rate ranging from 0.38% to 0.50% on any unused capacity.

The Revolving Credit Facility is secured by substantially all of our assets. The Credit Agreement also specifies that our leverage ratio cannot be more than 4.75 to 1 and that our interest coverage ratio cannot be less than 2.75 to 1 at any quarter end. At December 31, 2016, our leverage ratio was approximately 4.50 to 1 and our interest coverage ratio was approximately 3.94 to 1.

At December 31, 2016, we were in compliance with the covenants under the Credit Agreement.

2019 Notes

On July 9, 2014, we issued $400.0 million of 5.125% Senior Notes Due 2019 (the "2019 Notes"). During the three months ended June 30, 2016, we repurchased $5.0 million of our 2019 Notes for an aggregate purchase price of $3.1 million (excluding payments of accrued interest). As a result, we recorded a gain on the early extinguishment of our 2019 Notes of $1.8 million (net of the write off of debt issuance costs of $0.1 million).

The 2019 Notes mature on July 15, 2019. Interest is payable on January 15 and July 15 of each year. We have the right to redeem the 2019 Notes before the maturity date, although we would be required to pay a premium for early redemption.

At December 31, 2016, we were in compliance with the covenants under the indenture governing the 2019 Notes.

2021 Notes

On October 16, 2013, we issued $450.0 million of 6.875% Senior Notes Due 2021 (the “2021 Notes”). During the three months ended June 30, 2016, we repurchased $19.2 million of our 2021 Notes for an aggregate purchase price of $12.0 million (excluding payments of accrued interest). As a result, we recorded a gain on the early extinguishment of our 2021 Notes of $6.8 million (net of the write off of debt issuance costs of $0.4 million).

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The 2021 Notes mature on October 15, 2021. Interest is payable on April 15 and October 15 of each year. We have the right to redeem the 2021 Notes before the maturity date, although we would be required to pay a premium for early redemption.

At December 31, 2016, we were in compliance with the covenants under the indenture governing the 2021 Notes.

2022 Notes

On June 19, 2012, we entered into a Note Purchase Agreement (as amended, the "2022 Note Purchase Agreement") whereby we issued $250.0 million of Senior Notes in a private placement (the "2022 Notes"). The 2022 Notes bear interest at a fixed rate of 6.65%, which is payable quarterly. The 2022 Notes are required to be repaid in semi-annual installments of $25.0 million beginning on December 19, 2017 and ending on the maturity date of June 19, 2022. We have the option to prepay outstanding principal, although we would incur a prepayment penalty. On September 30, 2016, we amended our Note Purchase Agreement which, among other things, changes the maximum allowable leverage ratio to match the maximum allowable leverage ratio and the calculation of such ratio under our Credit Agreement. Additionally, the amendment provides for an increase in interest charged should our leverage ratio exceed certain predetermined levels. The 2022 Notes are secured by substantially all of our assets and rank equal in priority with borrowings under the Credit Agreement.

At December 31, 2016, we were in compliance with the covenants under the 2022 Note Purchase Agreement.

2023 Notes

On October 24, 2016, we entered into a Note Purchase Agreement (as amended, the "2023 Note Purchase Agreement") whereby we issued $700.0 million of Senior Unsecured Notes (the "2023 Notes") in a private placement. The 2023 Notes bear interest at 7.50%, which is payable on May 1 and November 1 of each year, beginning on May 1, 2017. We received net proceeds of $687.9 million, after the initial purchasers' discount of $10.5 million and offering costs of $1.6 million. We used the net proceeds to reduce the outstanding balance on our Revolving Credit Facility. The 2023 Notes mature on November 1, 2023.

The Partnership and NGL Energy Finance Corp. are co-issuers of the 2023 Notes, and the obligations under the 2023 Notes are fully and unconditionally guaranteed by certain of our existing and future restricted subsidiaries that incur or guarantee indebtedness under certain of our other indebtedness, including the Revolving Credit Facility. The indenture governing the 2023 Notes contains various customary covenants, including, (i) pay distributions on, purchase or redeem our common equity or purchase or redeem our subordinated debt, (ii) incur or guarantee additional indebtedness or issue preferred units, (iii) create or incur certain liens, (iv) enter into agreements that restrict distributions or other payments from our restricted subsidiaries to us, (v) consolidate, merge or transfer all or substantially all of our assets, and (vi) engage in transactions with affiliates.

Our obligations under the indenture may be accelerated following certain events of default (subject to applicable cure periods), including, without limitation, (i) the failure to pay principal or interest when due, (ii) experiencing an event of default on certain other debt agreements, or (iii) certain events of bankruptcy or insolvency.

We have the option to redeem all or a portion of the 2023 Notes at any time on or after November 1, 2019 at 100% of the principal amount of the 2023 Notes redeemed plus accrued and unpaid interest. Prior to November 1, 2019, the Partnership may redeem all or a portion of the 2023 Notes at a price equal to the "make whole price" specified in the indenture, plus accrued and unpaid interest.

In connection with the closing of the offering of the 2023 Notes, the Partnership entered into a registration rights agreement (the “Registration Rights Agreement”). Under the Registration Rights Agreement, the Partnership agreed to file a registration statement with the SEC so that holders can exchange the 2023 Notes for registered notes that have substantially identical terms as the 2023 Notes and evidence the same indebtedness as the 2023 Notes. In addition, the subsidiary guarantors agreed to exchange the guarantee related to the 2023 Notes for a registered guarantee having substantially the same terms as the original guarantees. The Partnership is obligated use their commercially reasonable efforts to file an exchange offer registration statement with respect to the exchange notes and the exchange guarantees and cause such exchange offer registration statement to become effective on or prior to 365 days after the closing of this offering. If the Partnership fails to satisfy these obligations, it will be required to pay to the holders of the 2023 Notes liquidated damages in an amount equal to 0.25% per annum on the principal amount of the 2023 Notes held by such holder during the 90-day period immediately following the occurrence of such registration default, and such amount shall increase by 0.25% per annum at the end of such 90-day period.

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At December 31, 2016, we were in compliance with the covenants under the 2023 Note Purchase Agreement.

Other Long-Term Debt

We have certain notes payable related to equipment financing. We have also executed various non-interest bearing notes payable, primarily related to non-compete agreements entered into in connection with acquisitions of businesses. These instruments have a combined principal balance of $58.6 million at December 31, 2016, and the interest rates on these instruments range from 1.17% to 7.08% per year.

Debt Maturity Schedule

The scheduled maturities of our long-term debt are as follows at December 31, 2016:

Year Ending March 31,	Revolving Credit Facility	2019 Notes	2021 Notes	2022 Notes	2023 Notes	Other Long-Term Debt	Total
	(in thousands)						
2017 (three months)	$—	$—	$—	$—	$—	$ 1,437	$1,437
2018	—	—	—	25,000	—	8,234	33,234
2019	1,513,500	—	—	50,000	—	7,106	1,570,606
2020	—	383,467	—	50,000	—	6,594	440,061
2021	—	—	—	50,000	—	34,902	84,902
Thereafter	—	—	369,063	75,000	700,000	277	1,144,340
Total	$1,513,500	$383,467	$369,063	$250,000	$700,000	$ 58,550	$3,274,580

Note 9—Income Taxes

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

We have certain taxable corporate subsidiaries in the United States and in Canada, and our operations in Texas are subject to a state franchise tax that is calculated based on revenues net of cost of sales. Our fiscal years 2013 to 2016 generally remain subject to examination by federal, state, and Canadian tax authorities. We utilize the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply in the years in which these temporary differences are expected to be recovered or settled. Changes in tax rates are recognized in income in the period that includes the enactment date.

A publicly traded partnership is required to generate at least 90% of its gross income (as defined for federal income tax purposes) from certain qualifying sources. Income generated by our taxable corporate subsidiaries is excluded from this qualifying income calculation. Although we routinely generate income outside of our corporate subsidiaries that is non-qualifying, we believe that at least 90% of our gross income has been qualifying income for each of the calendar years since our initial public offering.

We evaluate uncertain tax positions for recognition and measurement in the consolidated financial statements. To recognize a tax position, we determine whether it is more likely than not that the tax position will be sustained upon examination, including resolution of any related appeals or litigation, based on the technical merits of the position. A tax position that meets the more likely than not threshold is measured to determine the amount of benefit to be recognized in the consolidated financial statements. We had no material uncertain tax positions that required recognition in our unaudited condensed consolidated financial statements at December 31, 2016 or March 31, 2016.

Note 10—Commitments and Contingencies

Legal Contingencies

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

Environmental Matters

Our unaudited condensed consolidated balance sheet at December 31, 2016 includes a liability, measured on an undiscounted basis, of $2.4 million related to environmental matters, which is reported within accrued expenses and other payables. Our operations are subject to extensive federal, state, and local environmental laws and regulations. Although we believe our operations are in substantial compliance with applicable environmental laws and regulations, risks of additional costs and liabilities are inherent in our business, and there can be no assurance that we will not incur significant costs. Moreover, it is possible that other developments, such as increasingly stringent environmental laws, regulations and enforcement policies thereunder, and claims for damages to property or persons resulting from the operations, could result in substantial costs. Accordingly, we have adopted policies, practices, and procedures in the areas of pollution control, product safety, occupational health, and the handling, storage, use, and disposal of hazardous materials designed to prevent material environmental or other damage, and to limit the financial liability that could result from such events. However, some risk of environmental or other damage is inherent in our business.

As previously disclosed, the U.S. Environmental Protection Agency ("EPA") had informed NGL Crude Logistics, LLC, formerly known as Gavilon, LLC (hereafter referred to as "Gavilon") of alleged violations in 2011 by Gavilon of the Clean Air Act's renewable fuel standards regulations (prior to its acquisition by NGL in December 2013). On October 4, 2016, the U.S. Department of Justice, acting at the request of the EPA, filed a civil complaint in the Northern District of Iowa against Gavilon and one of its then suppliers, Western Dubuque Biodiesel LLC ("Western Dubuque"). Consistent with the earlier allegations by the EPA, the civil complaint related to transactions between Gavilon and Western Dubuque and the generation of biodiesel renewable identification numbers ("RINs") sold by Western Dubuque to Gavilon in 2011. On December 19, 2016, we filed a motion to dismiss the complaint. On January 9, 2017, the EPA filed an amended complaint. The amended complaint seeks an order declaring Western Dubuque's RINs invalid, an order requiring the defendants to retire an equivalent number of valid RINs, and that the defendants pay statutory civil penalties. On January 23, 2017, we filed a motion to dismiss the amended complaint. Consistent with our position against the previous EPA allegations, and the original complaint, we deny the allegations in this amended civil complaint and intend to continue vigorously defending ourselves in the civil action. However, at this time NGL is unable to determine the outcome of this action or its significance to us.

Asset Retirement Obligations

We have contractual and regulatory obligations at certain facilities for which we have to perform remediation, dismantlement, or removal activities when the assets are retired. Our liability for asset retirement obligations is discounted to present value. To calculate the liability, we make estimates and assumptions about the retirement cost and the timing of retirement. Changes in our assumptions and estimates may occur as a result of the passage of time and the occurrence of future events. The following table summarizes changes in our asset retirement obligation, which is reported within other noncurrent liabilities in our unaudited condensed consolidated balance sheets (in thousands):

Balance at March 31, 2016	$5,574
Liabilities incurred	713
Liabilities assumed in acquisitions	406
Liabilities settled	(19)
Accretion expense	351
Balance at December 31, 2016	$7,025

In addition to the obligations discussed above, we may be obligated to remove facilities or perform other remediation upon retirement of certain other assets. However, the fair value of the asset retirement obligation cannot currently be reasonably estimated because the settlement dates are indeterminable. We will record an asset retirement obligation for these assets in the periods in which settlement dates are reasonably determinable.

Operating Leases

We have executed various noncancelable operating lease agreements for product storage, office space, vehicles, real estate, railcars, and equipment. The following table summarizes future minimum lease payments under these agreements at December 31, 2016 (in thousands):

Year Ending March 31,	
2017 (three months)	$34,952
2018	134,262
2019	111,760
2020	100,450
2021	87,197
Thereafter	140,153
Total	$608,774

Rental expense relating to operating leases was $32.0 million and $25.5 million during the three months ended December 31, 2016 and 2015, respectively, and $88.9 million and $92.6 million during the nine months ended December 31, 2016 and 2015, respectively.

Pipeline Capacity Agreements

We have executed noncancelable agreements with crude oil and refined products pipeline operators, which guarantee us minimum monthly shipping capacity on the pipelines. As a result, we are required to pay the minimum shipping fees if actual shipments are less than our allotted capacity. The following table summarizes future minimum throughput payments under these agreements at December 31, 2016 (in thousands):

Year Ending March 31,	
2017 (three months)	$13,534
2018	54,365
2019	53,688
2020	43,856
2021	1,438
Thereafter	599
Total	$167,480

Construction Commitments

At December 31, 2016, we had construction commitments of $43.7 million.

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Sales and Purchase Contracts

We have entered into product sales and purchase contracts for which we expect the parties to physically settle and deliver the inventory in future periods. The following table summarizes such commitments at December 31, 2016:

	Volume	Value
	(in thousands)	
Purchase commitments:		
Natural gas liquids fixed-price (gallons)	17,131	$9,504
Natural gas liquids index-price (gallons)	322,711	$242,996
Crude oil fixed-price (barrels)	3,671	$186,499
Crude oil index-price (barrels)	33,327	$1,455,775
Sale commitments:		
Natural gas liquids fixed-price (gallons)	119,108	$82,791
Natural gas liquids index-price (gallons)	205,672	$197,433
Crude oil fixed-price (barrels)	4,797	$240,874
Crude oil index-price (barrels)	15,157	$809,785

We account for the contracts in the table above using the normal purchase and normal sale election. Under this accounting policy election, we do not record the contracts at fair value at each balance sheet date; instead, we record the purchase or sale at the contracted value once the delivery occurs. Contracts in the table above may have offsetting derivative contracts (see Note 12) or inventory positions (see Note 2).

Certain other forward purchase and sale contracts do not qualify for the normal purchase and normal sale election. These contracts are recorded at fair value in our unaudited condensed consolidated balance sheet and are not included in the table above. These contracts are included in the derivative disclosures (see Note 12), and represent $50.2 million of our prepaid expenses and other current assets and $39.9 million of our accrued expenses and other payables at December 31, 2016.

Note 11—Equity

Partnership Equity

The Partnership’s equity consists of a 0.1% general partner interest and a 99.9% limited partner interest, which consists of common units. Our general partner has the right, but not the obligation, to contribute a proportionate amount of capital to us to maintain its 0.1% general partner interest. Our general partner is not required to guarantee or pay any of our debts and obligations.

General Partner Contributions

In connection with the issuance of common units for the vesting of restricted units and the ATM Program (as defined herein), as discussed within this note, as well as common units issued for a retail propane acquisition (see Note 4) during the nine months ended December 31, 2016, we issued 2,575 notional units to our general partner for $0.1 million in order to maintain its 0.1% interest in us.

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Our Distributions

The following table summarizes distributions declared during the last four quarters:

Date Declared	Record Date	Date Paid/Payable	Amount Per Unit	Amount Paid/Payable to Limited Partners (in thousands)	Amount Paid/Payable to General Partner (in thousands)
April 21, 2016	May 3, 2016	May 13, 2016	$0.3900	$ 40,626	$ 70
July 22, 2016	August 4, 2016	August 12, 2016	$0.3900	$ 41,146	$ 71
October 20, 2016	November 4, 2016	November 14, 2016	$0.3900	$ 41,907	$ 72
January 19, 2017	February 3, 2017	February 14, 2017	$0.3900	$ 42,923	$ 74

Class A Convertible Preferred Units

On April 21, 2016, we entered into a private placement agreement to issue $200 million of 10.75% Class A Convertible Preferred Units (“Preferred Units”) to Oaktree Capital Management L.P. and its co-investors (“Oaktree”). On June 23, 2016, the private placement agreement was amended to increase the aggregate principal amount from $200 million to $240 million. On May 11, 2016, we received an initial $100 million (“initial closing date”) and Oaktree received 8,309,237 Preferred Units, and on June 24, 2016, we received the remaining $140 million (“second closing date”) and Oaktree received 11,632,932 Preferred Units. In addition, Oaktree received 4,375,112 warrants (1,822,963 at the initial closing date and 2,552,149 at the second closing date) to purchase common units at an exercise price of $0.01 per common unit.

We will pay a cumulative, quarterly distribution in arrears at an annual rate of 10.75% on the Preferred Units then outstanding in cash, to the extent declared by the board of directors of our general partner. To the extent declared, such distributions will be paid for each such quarter within 45 days after each quarter end. On July 22, 2016, we declared a pro rata distribution for the three months ended June 30, 2016 of $1.8 million which was paid to the holders of the Preferred Units on August 12, 2016. On October 20, 2016, we declared a distribution for the three months ended September 30, 2016 of $6.4 million which was paid to the holders of the Preferred Units on November 14, 2016. On January 19, 2017, we declared a distribution for the three months ended December 31, 2016 of $6.4 million to be paid to the holders of the Preferred Units on February 14, 2017.

If the Preferred Unit quarterly distribution is not made in full in cash for any quarter, the Preferred Unit distribution rate will increase by one quarter of a percentage point (0.25%) per annum beginning with distributions for the first six-month period that a payment default is in effect, and will further increase by an additional one quarter of a percentage point (0.25%) beginning with distributions for the next six-month period during which a payment default remains in effect. The deficiency rate shall not exceed 11.25% per annum; as long as the default is occurring, the amount of accrued but unpaid Preferred Unit quarterly distributions shall increase at an annual rate of 10.75%, compounded quarterly, until paid in full.

The Preferred Units have no mandatory redemption date but are redeemable, at our election, any time after the first anniversary of the closing date. We have the right to redeem all of the outstanding Preferred Units at a price per

Preferred Unit equal to the purchase price multiplied by the redemption multiple then in effect. The redemption multiple means (a) 140% for redemptions occurring on or after the first, but prior to the second anniversary of the closing date, (b) 115% for redemptions occurring on or after the second, but prior to the third anniversary of the closing date, (c) 110% for redemptions occurring on or after the third, but prior to the eighth anniversary of the closing date and (d) 101% for redemptions occurring on or after the eighth anniversary of the closing date.

At any time after the third anniversary of the initial closing date, the Preferred Unit holders shall have the right to convert all of the outstanding Preferred Units at a price per Preferred Unit equal to the purchase price multiplied by the conversion multiple then in effect, which may be settled in common units, cash or a combination, at our discretion. The conversion multiple means if our common units are trading at or above $12.035 (“the initial conversion price”), the conversion price is not adjusted. However, if the conversion price is less than the initial conversion price, the conversion price will be reset to the greater of (i) the adjusted volume weighted average price of our common units for the fifteen trading days immediately preceding the third anniversary of the closing date or (ii) $5.00.

Upon a change of control of the Partnership, each Preferred Unit holder shall have the right, at its election, to either (i) elect to have its Preferred Units converted to common units; (ii) if we are the surviving entity of such change of control, it can elect to continue to hold its Preferred Units; or (iii) require us to redeem its Preferred Units for cash equal to (a) prior to the first anniversary of the closing date, 140% of the unit purchase price; (b) on or after the first but prior to the second anniversary of the closing date, 130% of the unit purchase price; (c) on or after the second anniversary of the closing date, 120% of the unit purchase price; and (d) thereafter, 101% of the unit purchase price. In each case, this amount will include any accrued but unpaid distributions at the redemption date.

Under the private placement agreement, we are required to file within 180 days of the initial closing date a registration statement registering the resales of common units issued or to be issued upon conversion of the Preferred Units or exercise of the warrants and have the registration statement declared effective within 360 days after the closing date. We are required to continue to maintain the effectiveness of the registration statement until all securities have been sold. The Partnership’s filed registration statement was declared effective by the SEC on November 23, 2016.

The warrants have an eight year term, after which unexercised warrants will expire. The holders of the warrants may convert one-third of the warrants from and after the first anniversary of the original issue date, another one-third of the warrants from and after the second anniversary of the original issue date and the final one-third may be converted from and after the third anniversary. Upon a change of control or in the event we exercise our redemption right with respect to the Preferred Units, all unvested warrants shall immediately vest and be exercisable in full.

We received net proceeds of $235.0 million (net of offering costs of $5.0 million) in connection with the issuance of the Preferred Units and warrants. We allocated these net proceeds, on a relative fair value basis, to the Preferred Units ($186.4 million), which includes the value of the beneficial conversion feature, and warrants ($48.6 million). As discussed below, $131.5 million of the amount allocated to the Preferred Units was allocated to the intrinsic value of the beneficial conversion feature. A beneficial conversion feature is defined as a nondetachable conversion feature that is in the money at the commitment date. Per the applicable accounting guidance, we are required to allocate a portion of the proceeds allocated to the Preferred Units to the beneficial conversion feature based on the intrinsic value of the beneficial conversion feature. The intrinsic value is calculated at the commitment date based on the difference between the fair value of the common units at the issuance date (number of common units issuable at conversion multiplied by the per unit value of our common units at the issuance date) and the proceeds attributed to the Preferred Units. We record the accretion attributable to the beneficial conversion feature as a deemed distribution using the effective interest method over the three year period prior to the effective dates of the holders’ conversion right. Accretion for the beneficial conversion feature was $2.5 million for the three months ended December 31, 2016 and $6.3 million for the nine months ended December 31, 2016.

As discussed above, the Preferred Units are not mandatorily redeemable but are redeemable upon a change of control, which was not certain to occur at the issuance of the Preferred Units. Due to the redemption being conditioned upon an event that is not certain to occur or that is not under our control, we are required to record the value allocated to the Preferred Units, excluding the value of the beneficial conversion feature, between liabilities and equity (mezzanine or temporary equity) within our unaudited condensed consolidated balance sheet. The value allocated to the warrants and the beneficial conversion feature was recorded as part of Limited Partners’ equity within our unaudited condensed consolidated balance sheet.

Amended and Restated Partnership Agreement

On June 24, 2016, NGL Energy Holdings LLC executed the Third Amended and Restated Agreement of Limited Partnership. The preferences, rights, powers and duties of holders of the Preferred Units are defined in the amended and restated partnership agreement. The Preferred Units rank senior to the common units, with respect to the payment of distributions and distribution of assets upon liquidation, dissolution and winding up. The Preferred Units have no stated maturity and are not subject to mandatory redemption or any sinking fund and will remain outstanding indefinitely unless redeemed by the Partnership or converted into common units at the election of the Partnership or the Preferred Unit holders or in connection with a change of control.

At-The-Market Program

On August 24, 2016, we entered into an equity distribution program in connection with an at-the-market program (the "ATM Program") pursuant to which we may issue and sell common units for up to $200.0 million in gross proceeds. This ATM Program is registered with the SEC on an effective registration statement on Form S-3. During the nine months ended December 31, 2016, we sold 2,353,438 common units for net proceeds of $43.9 million (net of offering costs of $0.3 million). As of December 31, 2016, approximately $155.4 million remained available for sale under the Partnership's ATM Program.

Subsequent to December 31, 2016, we sold an additional 967,697 common units for net proceeds of $20.5 million (net of offering costs of $0.2 million).

Equity-Based Incentive Compensation

Our general partner has adopted a long-term incentive plan ("LTIP"), which allows for the issuance of equity-based compensation. Our general partner has granted certain restricted units to employees and directors, which vest in tranches, subject to the continued service of the recipients. The awards may also vest upon a change of control, at the discretion of the board of directors of our general partner. No distributions accrue to or are paid on the restricted units during the vesting period.

The restricted units include awards that vest contingent on the continued service of the recipients through the vesting date (the "Service Awards"). The restricted units also include awards that are contingent both on the continued service of the recipients through the vesting date and also on the performance of our common units relative to other entities in the Alerian MLP Index (the "Index") over specified periods of time (the "Performance Awards").

During the three months ended September 30, 2016, we changed our process for how taxes are withheld upon the vesting of restricted units. Previously, employees could choose to pay cash for their portion of the taxes or have us withhold enough units to meet their tax withholding requirements. Employees could also elect to have the units withheld to exceed the statutory minimums. Now, employees will still be able to pay cash to satisfy their tax obligation or they can elect to sell enough units, through a broker assisted cashless exercise program, to meet their tax obligation. As a result of this change in process, the unvested restricted units and future grants are eligible for equity classification. Prior to this change in process, we classified any Service Awards or Performance Awards granted as liabilities and were required to recalculate the fair value of the award at each reporting date. Awards classified as equity are valued only at their grant date and are not revalued at each reporting date. As of June 30, 2016, we had liabilities related to our Service Awards and Performance Awards of $25.6 million and $1.8 million, respectively, which we reclassified to equity.

The following table summarizes the Service Award activity during the nine months ended December 31, 2016:

Unvested Service Award units at March 31, 2016	2,297,132
Units granted	3,105,600
Units vested and issued	(2,350,082)
Units forfeited	(339,600)
Unvested Service Award units at December 31, 2016	2,713,050

The following table summarizes the scheduled vesting of our unvested Service Award units at December 31, 2016:

Year Ending March 31,	
2018	881,350
2019	917,800
Thereafter	913,900
Total	2,713,050

Service Awards are valued at the market price as of the date of grant less the present value of the expected distribution stream over the vesting period using a risk-free interest rate. We record the expense for each Service Award on a straight-line basis over the requisite period for the entire award (that is, over the requisite service period of the last separately vesting portion of the award), ensuring that the amount of compensation cost recognized at any date must at least equal the portion of the grant-date value of the award that is vested at that date. During the three months ended December 31, 2016 and 2015, we recorded compensation expense related to Service Award units of $4.8 million and $0.4 million, respectively. During the nine months ended December 31, 2016 and 2015, we recorded compensation expense related to Service Award units of $51.5 million and $33.8 million, respectively.

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Of the restricted units granted and vested during the nine months ended December 31, 2016, 1,008,091 units were granted as a bonus for performance during the fiscal year ended March 31, 2016. We accrued expense of $16.8 million during the fiscal year ended March 31, 2016 as an estimate of the value of such bonus units that would be granted. During the nine months ended December 31, 2016, we recorded an additional $2.2 million to true up the estimate to the $19.0 million of actual expense associated with these bonuses. Since the units were not formally granted until August 2016, the full $19.0 million is reflected in the expense during the three months and nine months ended December 31, 2016 in the amounts in the preceding paragraph above.

The following table summarizes the estimated future expense we expect to record on the unvested Service Award units at December 31, 2016 (in thousands):

Year Ending March 31,	
2017 (three months)	$4,676
2018	12,510
2019	9,106
Thereafter	2,386
Total	$28,678

During April 2015, our general partner granted Performance Award units to certain employees. The number of Performance Award units that will vest is contingent on the performance of our common units relative to the performance of the other entities in the Index. Performance will be calculated based on the return on our common units (including changes in the market price of the common units and distributions paid during the performance period) relative to the returns on the common units of the other entities in the Index. As of December 31, 2016, performance will be measured over the following periods:

Vesting Date of Tranche	Performance Period for Tranche
July 1, 2017	July 1, 2014 through June 30, 2017
July 1, 2018	July 1, 2015 through June 30, 2018
July 1, 2019	July 1, 2016 through June 30, 2019

The following table summarizes the percentage of the maximum Performance Award units that will vest depending on the percentage of entities in the Index that NGL outperforms:

Our Relative Total Unitholder Return Percentile Ranking	Payout (% of Target Units)
Less than 50th percentile	0%
Between the 50th and 75th percentile	50%–100%
Between the 75th and 90th percentile	100%–200%
Above the 90% percentile	200%

The following table summarizes the Performance Award activity during the nine months ended December 31, 2016:

Unvested Performance Award units at March 31, 2016	637,382
Units granted	932,309
Units forfeited	(380,691)
Unvested Performance Award units at December 31, 2016	1,189,000

During the July 1, 2013 through June 30, 2016 performance period, the return on our common units was below the return of the 50th percentile of our peer companies in the Index. As a result, no units vested on July 1, 2016 and are considered to be forfeited.

The fair value of the Performance Awards is estimated using a Monte Carlo simulation at the grant date. We record the expense for each of the tranches of the Performance Awards on a straight-line basis over the period beginning with the grant date and ending with the vesting date of the tranche. Any Performance Awards that do not become earned Performance Awards shall terminate, expire and otherwise be forfeited by the participants. During the three months ended December 31, 2016, and 2015, we recorded compensation expense related to Performance Award units of $2.1 million and a reversal of previously

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recorded expense of $1.8 million, respectively, related to Performance Award units. During the nine months ended December 31, 2016 and 2015, we recorded compensation expense related to Performance Award units of $5.2 million and $16.3 million, respectively.

The following table summarizes the estimated future expense we expect to record on the unvested Performance Award units at December 31, 2016 (in thousands):

Year Ending March 31,	
2017 (three months)	$2,047
2018	6,197
2019	3,232
Thereafter	655
Total	$12,131

The number of common units that may be delivered pursuant to awards under the LTIP is limited to 10% of the issued and outstanding common units. The maximum number of units deliverable under the LTIP plan automatically increases to 10% of the issued and outstanding common units immediately after each issuance of common units, unless the plan administrator determines to increase the maximum number of units deliverable by a lesser amount. Units withheld to satisfy tax withholding obligations are not considered to be delivered under the LTIP. In addition, when an award is forfeited, canceled, exercised, paid or otherwise terminates or expires without the delivery of units, the units subject to such award are again available for new awards under the LTIP. At December 31, 2016, approximately 1.3 million common units remain available for issuance under the LTIP.

Note 12—Fair Value of Financial Instruments

Our cash and cash equivalents, accounts receivable, accounts payable, accrued expenses, and other current assets and liabilities (excluding derivative instruments) are carried at amounts which reasonably approximate their fair values due to their short-term nature.

Commodity Derivatives

The following table summarizes the estimated fair values of our commodity derivative assets and liabilities reported in our unaudited condensed consolidated balance sheet at the dates indicated:

	December 31, 2016		March 31, 2016	
	Derivative Assets	Derivative Liabilities	Derivative Assets	Derivative Liabilities
	(in thousands)			
Level 1 measurements	$3,358	$(75,986)	$47,361	$(3,983)
Level 2 measurements	51,054	(40,982)	32,700	(28,612)
	54,412	(116,968)	80,061	(32,595)
Netting of counterparty contracts (1)	(2,690)	2,690	(3,384)	3,384
Net cash collateral provided (held)	(843)	73,465	(18,176)	599
Commodity derivatives	$50,879	$(40,813)	$58,501	$(28,612)

(1) Relates to commodity derivative assets and liabilities that are expected to be net settled on an exchange or through a netting arrangement with the counterparty.

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The following table summarizes the accounts that include our commodity derivative assets and liabilities in our unaudited condensed consolidated balance sheets at the dates indicated:

	December 31, 2016	March 31, 2016
	(in thousands)	
Prepaid expenses and other current assets	$ 50,879	$ 58,501
Accrued expenses and other payables	(40,813)	(28,612)
Net commodity derivative asset	$ 10,066	$ 29,889

The following table summarizes our open commodity derivative contract positions at the dates indicated. We do not account for these derivatives as hedges.

Contracts	Settlement Period	Net Long (Short) Notional Units (in barrels)	Fair Value of Net Assets (Liabilities)
		(in thousands)	
At December 31, 2016:			
Cross-commodity (1)	January 2017–March 2017	53	$ 1,348
Crude oil fixed-price (2)	January 2017–March 2017	(671)	(2,469)
Propane fixed-price (2)	January 2017–December 2017	106	1,338
Refined products fixed-price (2)	January 2017–January 2019	(7,027)	(66,119)
Refined products index (2)	January 2017–December 2017	(24)	(197)
Other	January 2017–March 2022		3,543
			(62,556)
Net cash collateral provided			72,622
Net commodity derivative asset			$ 10,066
At March 31, 2016:			
Cross-commodity (1)	April 2016–March 2017	251	$ 1,663
Crude oil fixed-price (2)	April 2016–December 2016	(1,583)	(3,655)