Summit Midstream Partners, LP
Form 10-Q
August 08, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q
(Mark One)
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2014
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: 001-35666
Summit Midstream Partners, LP
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	45-5200503 (I.R.S. Employer Identification No.)
2100 McKinney Avenue, Suite 1250 Dallas, Texas (Address of principal executive offices)	75201 (Zip Code)

(214) 242-1955
(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. x Yes o 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).
x Yes o 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 o	Accelerated filer x
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). o Yes x No
Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date.

Class	As of July 31, 2014
Common Units	34,423,369 units

Subordinated Units	24,409,850 units
General Partner Units	1,200,651 units

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FORWARD-LOOKING STATEMENTS

Investors are cautioned that certain statements contained in this report as well as in periodic press releases and certain oral statements made by our officials during our presentations are “forward-looking” statements. Forward-looking statements include, without limitation, any statement that may project, indicate or imply future results, events, performance or achievements, and may contain the words “expect,” “intend,” “plan,” “anticipate,” “estimate,” “believe,” “will “will continue,” “will likely result,” and similar expressions, or future conditional verbs such as “may,” “will,” “should,” “wou and “could.” In addition, any statement concerning future financial performance (including future revenues, earnings or growth rates), ongoing business strategies or prospects, and possible actions taken by us or our subsidiaries, are also forward-looking statements. These forward-looking statements involve external risks and uncertainties, including, but not limited to, those described under the section entitled “Risk Factors” included herein.

Forward-looking statements are based on current expectations and projections about future events and are inherently subject to a variety of risks and uncertainties, many of which are beyond the control of our management team. All forward-looking statements in this report and subsequent written and oral forward-looking statements attributable to us, or to persons acting on our behalf, are expressly qualified in their entirety by the cautionary statements in this paragraph. These risks and uncertainties include, among others:

- changes in general economic conditions;
- fluctuations in crude oil, natural gas and natural gas liquids prices;
- the extent and success of drilling efforts, as well as the extent and quality of natural gas volumes produced within proximity of our assets;
- failure or delays by our customers in achieving expected production in their natural gas and crude oil projects;
- competitive conditions in our industry and their impact on our ability to connect natural gas supplies to our gathering and processing assets or systems;
- actions or inactions taken or non-performance by third parties, including suppliers, contractors, operators, processors, transporters and customers, including the inability or failure of our shipper customers to meet their financial obligations under our gathering agreements;
- our ability to consummate acquisitions, successfully integrate the acquired businesses, realize any cost savings and other synergies from any acquisition;
- the ability to attract and retain key management personnel;
- commercial bank and capital market conditions and the potential impact of changes or disruptions in the credit and/or capital markets;
- changes in the availability and cost of capital, and the results of our financing efforts, including availability of funds in the credit and/or capital markets;
- restrictions placed on us by the agreements governing our debt instruments;
- the availability, terms and cost of downstream transportation and processing services;
- operating hazards, natural disasters, accidents, weather-related delays, casualty losses and other matters beyond our control;
- weather conditions and seasonal trends;
- timely receipt of necessary government approvals and permits, our ability to control the costs of construction, including costs of materials, labor and rights-of-way and other factors that may impact our ability to complete projects within budget and on schedule;
- the effects of existing and future laws and governmental regulations, including environmental and climate change requirements;
- the effects of litigation; and
- certain factors discussed elsewhere in this report.

Developments in any of these areas could cause actual results to differ materially from those anticipated or projected or cause a significant reduction in the market price of our common units and senior notes.

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The foregoing list of risks and uncertainties may not contain all of the risks and uncertainties that could affect us. In addition, in light of these risks and uncertainties, the matters referred to in the forward-looking statements contained in this document may not in fact occur. Accordingly, undue reliance should not be placed on these statements. We undertake no obligation to publicly update or revise any forward-looking statements as a result of new information, future events or otherwise, except as otherwise required by law.

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PART I—FINANCIAL INFORMATION
Item 1. Financial Statements.
SUMMIT MIDSTREAM PARTNERS, LP AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2014	December 31, 2013
	(Dollars in thousands)	
Assets		
Current assets:		
Cash and cash equivalents	$23,430	$20,357
Accounts receivable	53,345	67,877
Other assets	2,044	4,741
Total current assets	78,819	92,975
Property, plant and equipment, net	1,198,727	1,158,081
Intangible assets, net:		
Favorable gas gathering contracts	17,010	17,880
Contract intangibles	367,146	383,306
Rights-of-way	101,923	100,991
Total intangible assets, net	486,079	502,177
Goodwill	115,888	115,888
Other noncurrent assets	13,621	14,618
Total assets	$1,893,134	$1,883,739
Liabilities and Partners' Capital		
Current liabilities:		
Trade accounts payable	$29,670	$25,117
Due to affiliate	1,578	653
Deferred revenue	2,609	1,555
Ad valorem taxes payable	6,883	8,375
Accrued interest	11,250	12,144
Other current liabilities	9,943	11,729
Total current liabilities	61,933	59,573
Long-term debt	726,000	586,000
Noncurrent liability, net (Note 4)	5,955	6,374
Deferred revenue	37,093	29,683
Other noncurrent liabilities	1,597	372
Total liabilities	832,578	682,002
Commitments and contingencies (Note 11)		
Common limited partner capital (34,423,369 units issued and outstanding at June 30, 2014 and 29,079,866 units issued and outstanding at December 31, 2013)	702,298	566,532
Subordinated limited partner capital (24,409,850 units issued and outstanding at June 30, 2014 and December 31, 2013)	332,389	379,287
General partner interests (1,200,651 units issued and outstanding at June 30, 2014 and 1,091,453 issued and outstanding at December 31, 2013)	25,869	23,324
Summit Investments' equity in contributed subsidiaries	—	232,594
Total partners' capital	1,060,556	1,201,737
Total liabilities and partners' capital	$1,893,134	$1,883,739

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

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SUMMIT MIDSTREAM PARTNERS, LP AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
	(In thousands, except per-unit and unit amounts)			
Revenues:				
Gathering services and other fees	$54,831	$47,914	$104,903	$93,888
Natural gas, NGLs and condensate sales and other	26,190	23,797	52,546	40,088
Amortization of favorable and unfavorable contracts	(225)	(250)	(451)	(530)
Total revenues	80,796	71,461	156,998	133,446
Costs and expenses:				
Cost of natural gas and NGLs	16,378	13,438	31,660	21,403
Operation and maintenance	19,859	18,371	39,040	35,950
General and administrative	8,690	8,406	16,576	14,973
Transaction costs	76	2,435	612	2,473
Depreciation and amortization	20,480	16,801	40,122	30,714
Total costs and expenses	65,483	59,451	128,010	105,513
Other (expense) income	(5)	1	(4)	2
Interest expense	(10,803)	(3,023)	(17,947)	(4,903)
Income before income taxes	4,505	8,988	11,037	23,032
Income tax expense	(469)	(221)	(628)	(402)
Net income	$4,036	$8,767	$10,409	$22,630
Less: net income attributable to Summit Investments (Note 1)	—	699	2,828	2,082
Net income attributable to SMLP	4,036	8,068	7,581	20,548
Less: net income attributable to general partner, including IDRs	801	161	1,232	411
Net income attributable to limited partners	$3,235	$7,907	$6,349	$20,137
Earnings per limited partner unit (Note 7):				
Common unit – basic	$0.05	$0.16	$0.14	$0.41
Common unit – diluted	$0.05	$0.16	$0.14	$0.41
Subordinated unit – basic and diluted	$0.05	$0.16	$0.08	$0.41
Weighted-average limited partner units outstanding (Note 7):				
Common units – basic	34,422,273	25,172,087	32,179,431	24,790,158
Common units – diluted	34,618,506	25,281,104	32,360,022	24,871,033
Subordinated units – basic and diluted	24,409,850	24,409,850	24,409,850	24,409,850
Cash distributions declared and paid per common unit	$0.50	$0.42	$0.98	$0.83

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

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SUMMIT MIDSTREAM PARTNERS, LP AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF PARTNERS' CAPITAL

	Partners' capital Limited partners			Summit Investments' equity in contributed subsidiaries	
	Common	Subordinated	General partner		Total
	(In thousands)				
Partners' capital, January 1, 2013	$418,856	$380,169	$20,222	$211,001	$1,030,248
Net income	10,127	10,010	411	2,082	22,630
SMLP LTIP unit-based compensation	1,141	—	—	—	1,141
Distributions to unitholders	(20,262)	(20,260)	(826)	—	(41,348)
Consolidation of Bison Midstream net assets	—	—	—	303,168	303,168
Contribution from Summit Investments to Bison Midstream	—	—	—	2,229	2,229
Purchase of Bison Midstream	47,936	—	978	(248,914)	(200,000)
Contribution of net assets from Summit Investments in excess of consideration paid for Bison Midstream	28,558	26,846	1,131	(56,535)	—
Issuance of units in connection with the Mountaineer Acquisition	98,000	—	2,000	—	100,000
Cash advance to Summit Investments from contributed subsidiaries, net	—	—	—	(2,243)	(2,243)
Expenses paid by Summit Investments on behalf of contributed subsidiaries	—	—	—	4,762	4,762
Capitalized interest allocated to Red Rock Gathering projects from Summit Investments	—	—	—	109	109
Class B membership interest unit-based compensation	17	—	—	244	261
Repurchase of DFW Net Profits Interests	(5,859)	(5,859)	(239)	—	(11,957)
Partners' capital, June 30, 2013	$578,514	$390,906	$23,677	$215,903	$1,209,000
Partners' capital, January 1, 2014	$566,532	$379,287	$23,324	$232,594	$1,201,737
Net income	3,634	2,715	1,232	2,828	10,409
SMLP LTIP unit-based compensation	2,424	—	—	—	2,424
Tax withholdings on vested SMLP LTIP awards	(656)	—	—	—	(656)
Issuance of common units, net of offering costs	197,989	—	—	—	197,989
Contribution from general partner	—	—	4,235	—	4,235
Purchase of Red Rock Gathering	—	—	—	(305,000)	(305,000)
Excess of purchase price over acquired carrying value of Red Rock Gathering	(36,228)	(25,691)	(1,264)	63,183	—
Cash advance from Summit Investments to contributed subsidiaries	—	—	—	1,982	1,982
Expenses paid by Summit Investments on behalf of contributed subsidiaries	—	—	—	4,413	4,413

Repurchase of SMLP LTIP units	(228)	—	—	—	(228)
Distributions to unitholders	(31,169)	(23,922)	(1,658)	—	(56,749)
Partners' capital, June 30, 2014	$702,298	$332,389	$25,869	$—	$1,060,556

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

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SUMMIT MIDSTREAM PARTNERS, LP AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six months ended June 30, 2014	2013
	(In thousands)	
Cash flows from operating activities:		
Net income	$10,409	$22,630
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	40,573	31,244
Amortization of deferred loan costs	1,220	882
Unit-based compensation	2,424	1,402
Loss on asset sales	6	—
Changes in operating assets and liabilities:		
Accounts receivable	14,532	(434)
Due to affiliate	925	2,674
Trade accounts payable	2,319	2,525
Change in deferred revenue	8,464	5,695
Ad valorem taxes payable	(1,492)	(2,200)
Accrued interest	(894)	(16)
Other, net	2,213	5,070
Net cash provided by operating activities	80,699	69,472
Cash flows from investing activities:		
Capital expenditures	(63,336)	(49,642)
Proceeds from asset sales	24	—
Acquisition of gathering system from third party	—	(210,000)
Acquisition of gathering system from affiliate	(305,000)	(200,000)
Net cash used in investing activities	(368,312)	(459,642)
Cash flows from financing activities:		
Distributions to unitholders	(56,749)	(41,348)
Borrowings under revolving credit facility	160,000	360,000
Repayments under revolving credit facility	(20,000)	(294,180)
Deferred loan costs	(300)	(7,333)
Tax withholdings on vested SMLP LTIP awards	(656)	—
Proceeds from issuance of common units, net	197,989	—
Contribution from general partner	4,235	—
Cash advance from (to) Summit Investments to (from) contributed subsidiaries, net	1,982	(11)
Expenses paid by Summit Investments on behalf of contributed subsidiaries	4,413	5,117
Issuance of 7.5% senior notes	—	300,000
Issuance of units to affiliate in connection with the Mountaineer Acquisition	—	100,000
Repurchase of equity-based compensation awards	(228)	(11,957)
Net cash provided by financing activities	290,686	410,288
Net change in cash and cash equivalents	3,073	20,118
Cash and cash equivalents, beginning of period	20,357	11,334
Cash and cash equivalents, end of period	$23,430	$31,452

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SUMMIT MIDSTREAM PARTNERS, LP AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(continued)

	Six months ended June 30,	
	2014	2013
	(In thousands)	
Supplemental Cash Flow Disclosures:		
Cash interest paid	$17,153	$4,014
Less: capitalized interest	3,688	1,559
Interest paid (net of capitalized interest)	$13,465	$2,455
Cash paid for taxes	$—	$660
Noncash Investing and Financing Activities:		
Capital expenditures in trade accounts payable (period-end accruals)	$18,703	$6,680
Excess of purchase price over acquired carrying value of Red Rock Gathering	63,183	—
Issuance of units to affiliate to partially fund the Bison Drop Down	—	48,914
Contribution of net assets from Summit Investments in excess of consideration paid for Bison Midstream	—	56,535

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

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SUMMIT MIDSTREAM PARTNERS, LP AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
1. ORGANIZATION, BUSINESS OPERATIONS AND BASIS OF PRESENTATION

Organization. Summit Midstream Partners, LP ("SMLP" or the "Partnership"), a Delaware limited partnership, was formed in May 2012 and began operations in October 2012 in connection with its initial public offering ("IPO") of common limited partner units. SMLP is a growth-oriented limited partnership focused on developing, owning and operating midstream energy infrastructure assets that are strategically located in the core producing areas of unconventional resource basins, primarily shale formations, in North America.

Effective with the completion of its IPO on October 3, 2012, SMLP had a 100% ownership interest in Summit Midstream Holdings, LLC ("Summit Holdings") which had a 100% ownership interest in both DFW Midstream Services LLC ("DFW Midstream") and Grand River Gathering, LLC ("Grand River Gathering").

On June 4, 2013, the Partnership acquired all of the membership interests of Bison Midstream, LLC ("Bison Midstream") from a wholly owned subsidiary of Summit Midstream Partners, LLC ("Summit Investments") (the "Bison Drop Down"), and thereby acquired certain associated natural gas gathering pipeline, dehydration and compression assets in the Bakken Shale Play in Mountrail and Burke counties in North Dakota (the "Bison Gas Gathering system").

Prior to the Bison Drop Down, on February 15, 2013, Summit Investments acquired Bear Tracker Energy, LLC ("BTE"), which was subsequently renamed Meadowlark Midstream Company, LLC ("Meadowlark Midstream"). The Bison Gas Gathering system was carved out from Meadowlark Midstream in connection with the Bison Drop Down. As such, it was deemed a transaction among entities under common control.

On June 21, 2013, Mountaineer Midstream Company, LLC ("Mountaineer Midstream"), a newly formed, wholly owned subsidiary of the Partnership, acquired certain natural gas gathering pipeline and compression assets in the Marcellus Shale Play in Doddridge and Harrison counties, West Virginia from an affiliate of MarkWest Energy Partners, L.P. ("MarkWest") (the "Mountaineer Acquisition").

In October 2012, Summit Investments acquired ETC Canyon Pipeline, LLC ("Canyon") from a subsidiary of Energy Transfer Partners, L.P. The Canyon gathering and processing assets were contributed to Red Rock Gathering Company, LLC ("Red Rock Gathering"), a newly formed, wholly owned subsidiary of Summit Investments. Red Rock Gathering gathers and processes natural gas and natural gas liquids in the Piceance Basin in western Colorado and eastern Utah. On March 18, 2014, SMLP acquired all of the membership interests of Red Rock Gathering from a subsidiary of Summit Investments (the "Red Rock Drop Down"). Concurrent with the closing of the Red Rock Drop Down, SMLP contributed its interest in Red Rock Gathering to Grand River Gathering. For additional information, see Notes 6 and 12.

Summit Investments is a Delaware limited liability company and the predecessor for accounting purposes of SMLP. Summit Investments was formed and began operations in September 2009. Through August 2011, Summit Investments was wholly owned by Energy Capital Partners II, LLC and its parallel and co-investment funds (collectively, "Energy Capital Partners"). In August 2011, Energy Capital Partners sold an interest in Summit Investments to a subsidiary of GE Energy Financial Services, Inc. ("GE Energy Financial Services"). On June 17, 2014, GE Energy Financial Services exchanged 100% of its Class A membership interests in Summit Investments for a new class of membership interests, structured as Class C Preferred interests. As a result, GE Energy Financial Services is no longer a Class A member of Summit Investments. Consequently, we refer to Energy Capital Partners and GE Energy Financial Services as our "Sponsors" for the period from August 2011 until June 17, 2014, and we refer to Energy Capital Partners as our sole "Sponsor" subsequent to June 17, 2014. As of June 30, 2014, Summit Investments, through a wholly owned subsidiary, held 9,641,397 SMLP common units, 24,409,850 SMLP subordinated units and 1,200,651 general partner units representing a 2% general partner interest in SMLP.

SMLP is managed and operated by the board of directors and executive officers of Summit Midstream GP, LLC (the "general partner"). Summit Investments, as the ultimate owner of our general partner, controls SMLP and has the right to appoint the entire board of directors of our general partner, including our independent directors. SMLP's operations are conducted through, and our operating assets are owned by, various operating subsidiaries. However, neither SMLP nor its subsidiaries have any employees. The general partner has the sole responsibility for providing the personnel necessary to conduct SMLP's operations, whether through directly hiring employees or by obtaining the services of personnel employed by others, including Summit Investments. All of the personnel that conduct SMLP's business are employed by the general partner and its affiliates, but these individuals are sometimes referred to as our employees.

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References to the "Company," "we," or "our," when used for dates or periods ended on or after the IPO, refer collectively to SMLP and its subsidiaries. References to the "Company," "we," or "our," when used for dates or periods ended prior to the IPO, refer collectively to Summit Investments and its subsidiaries.

Business Operations. We provide natural gas gathering, treating and processing services pursuant to primarily long-term and fee-based, natural gas gathering agreements with our customers. Our results are driven primarily by the volumes of natural gas that we gather, treat and process across our systems. Our gathering and processing systems and the unconventional resource basins in which they operate as of June 30, 2014 were as follows:

- Mountaineer Midstream – the Appalachian Basin, which includes the Marcellus Shale formation in northern West Virginia;
- Bison Midstream – the Williston Basin, which includes the Bakken and Three Forks shale formations in northwestern North Dakota;
- DFW Midstream – the Fort Worth Basin, which includes the Barnett Shale formation in north-central Texas; and
- Grand River Gathering – the Piceance Basin, which includes the Mesaverde formation and the Mancos and Niobrara shale formations in western Colorado and eastern Utah.

Our operating subsidiaries are DFW Midstream (which includes the Mountaineer Midstream gathering system), Bison Midstream and Grand River Gathering. All of our operating subsidiaries are midstream energy companies focused on the development, construction and operation of natural gas gathering and processing systems.

Basis of Presentation and Principles of Consolidation. We prepare our unaudited condensed consolidated financial statements in accordance with accounting principles generally accepted in the United States of America ("GAAP"). These principles are established by the Financial Accounting Standards Board. We make estimates and assumptions that affect the reported amounts of assets and liabilities at the balance sheet dates, including fair value measurements, the reported amounts of revenue and expense, and the disclosure of contingencies. Although management believes these estimates are reasonable, actual results could differ from its estimates.

These unaudited condensed consolidated financial statements reflect the results of operations of: (i) Red Rock Gathering for all periods presented, (ii) Bison Midstream since February 16, 2013, and (iii) Mountaineer Midstream since June 22, 2013. SMLP recognized its acquisitions of Red Rock Gathering and Bison Midstream at Summit Investments' historical cost because the acquisitions were executed by entities under common control. The excess of the purchase price paid by SMLP over Summit Investments' net investment in Red Rock Gathering was recognized as a reduction to partners' capital. The excess of Summit Investments' net investment in Bison Midstream over the purchase price paid by SMLP was recognized as an addition to partners' capital. Due to the common control aspect, the Red Rock Drop Down and the Bison Drop Down were accounted for by the Partnership on an “as-if pooled” basis for the periods during which common control existed. The unaudited condensed consolidated financial statements include the assets, liabilities, and results of operations of SMLP and its respective wholly owned subsidiaries. All intercompany transactions among the consolidated entities have been eliminated in consolidation.

These unaudited condensed consolidated financial statements have been prepared pursuant to the rules and the regulations of the Securities and Exchange Commission (the "SEC"). Certain information and note disclosures normally included in annual financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to those rules and regulations, although the Partnership believes that the disclosures made are adequate to make the information not misleading. These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto that are included in our annual report on Form 10-K for the year ended December 31, 2013, as updated and superseded by our current report on Form 8-K dated July 3, 2014 (the "2013 Annual Report"). The results of operations for an interim period are not necessarily indicative of results expected for a full year.

We conduct our operations in the midstream sector with four operating segments: Mountaineer Midstream, Bison Midstream, DFW Midstream and Grand River Gathering. However, due to their similar characteristics and how we manage our business, we have aggregated these segments into one reportable segment for disclosure purposes. The assets of our reportable segment consist of natural gas gathering and processing systems and related plant and equipment. Our operating segments reflect the way in which we internally report the financial information used to make decisions and allocate resources in connection with our operations.

For additional information, see Note 1 to the audited consolidated financial statements included in the 2013 Annual Report.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Other Assets. Other assets primarily consist of prepaid expenses that are charged to expense over the period of benefit or the life of the related contract.

Fair Value of Financial Instruments. The carrying amount of cash and cash equivalents, accounts receivable, and accounts payable reported on the balance sheet approximates fair value due to their short-term maturities.

A summary of the estimated fair value for financial instruments follows.

	June 30, 2014		December 31, 2013	
	Carrying value	Estimated fair value (Level 2)	Carrying value	Estimated fair value (Level 2)
	(In thousands)			
Revolving credit facility	$426,000	$426,000	$286,000	$286,000
7.5% Senior notes	300,000	326,500	300,000	314,625

The revolving credit facility's carrying value on the balance sheet is its fair value due to its floating interest rate. The fair value for the senior notes is based on an average of nonbinding broker quotes as of June 30, 2014 and December 31, 2013. The use of different market assumptions or valuation methodologies may have a material effect on the estimated fair value of the senior notes.

Commitments and Contingencies. We record accruals for loss contingencies when we determine that it is probable that a liability has been incurred and that such economic loss can be reasonably estimated. Such determinations are subject to interpretations of current facts and circumstances, forecasts of future events, and estimates of the financial impacts of such events.

Revenue Recognition. We generate the majority of our revenue from the natural gas gathering, treating and processing services that we provide to our natural gas producer customers. We also generate revenue from our marketing of natural gas and natural gas liquids ("NGLs"). We realize revenues by receiving fees from our producer customers or by selling the residue natural gas and NGLs.

We recognize revenue earned from fee-based gathering, treating and processing services in gathering services and other fees revenue. We also earn revenue from the sale of physical natural gas purchased from our customers under percentage-of-proceeds and keep-whole arrangements. These revenues are recognized in natural gas, NGLs and condensate sales and other with corresponding expense recognition in cost of natural gas and NGLs. We sell substantially all of the natural gas that we retain from our DFW Midstream customers to offset the power expenses of the electric-driven compression on the DFW Midstream system. We also sell condensate retained from our gathering services at Grand River Gathering. Revenues from the retainage of natural gas and condensate are recognized in natural gas, NGLs and condensate sales and other; the associated expense is included in operation and maintenance expense. Certain customers reimburse us for costs we incur on their behalf. We record costs incurred and reimbursed by our customers on a gross basis.

We recognize revenue when all of the following criteria are met: (i) persuasive evidence of an exchange arrangement exists, (ii) delivery has occurred or services have been rendered, (iii) the price is fixed or determinable, and (iv) collectability is reasonably assured.

We obtain access to natural gas and provide services principally under contracts that contain one or more of the following arrangements:

- Fee-based arrangements. Under fee-based arrangements, we receive a fee or fees for one or more of the following services: natural gas gathering, treating, and/or processing. Fee-based arrangements include natural gas purchase arrangements pursuant to which we purchase natural gas at the wellhead, or other receipt points, at a settled price at the delivery point less a specified amount, generally the same as the fees we would otherwise charge for gathering of natural gas from the wellhead location to the delivery point. The margins earned are directly related to the volume of natural gas that flows through the system.
- Percent-of-proceeds arrangements. Under percent-of-proceeds arrangements, we generally purchase natural gas from producers at the wellhead, or other receipt points, gather the wellhead natural gas through our gathering system, treat

the natural gas, process the natural gas and/or sell the natural gas to a third party for processing. We then remit to our producers an agreed-upon percentage of the actual proceeds

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received from sales of the residue natural gas and NGLs. Certain of these arrangements may also result in returning all or a portion of the residue natural gas and/or the NGLs to the producer, in lieu of returning sales proceeds. The margins earned are directly related to the volume of natural gas that flows through the system and the price at which we are able to sell the residue natural gas and NGLs.

- Keep-Whole. Under keep-whole arrangements, after processing we keep 100% of the NGLs produced, and the processed natural gas, or value of the natural gas, is returned to the producer. Since some of the natural gas is used and removed during processing, we compensate the producer for the amount of natural gas used and removed in processing by supplying additional natural gas or by paying an agreed-upon value for the natural gas utilized. These arrangements have commodity price exposure for us because the costs are dependent on the price of natural gas and the revenues are based on the price of NGLs.

Certain of our natural gas gathering or processing agreements provide for a monthly, quarterly or annual minimum volume commitment ("MVC") from certain of our customers. Under these MVCs, our customers agree to ship a minimum volume of natural gas on our gathering systems or to pay a minimum monetary amount over certain periods during the term of the MVC. A customer must make a shortfall payment to us at the end of the contract period if its actual throughput volumes are less than its MVC for that period. Certain customers are entitled to utilize shortfall payments to offset gathering fees in one or more subsequent periods to the extent that such customer's throughput volumes in subsequent periods exceed its MVC for that period.

We record customer billings for obligations under their MVCs as deferred revenue when the customer has the right to utilize shortfall payments to offset gathering or processing fees in subsequent periods. We recognize deferred revenue under these arrangements in revenue once all contingencies or potential performance obligations associated with the related volumes have either (i) been satisfied through the gathering or processing of future excess volumes of natural gas, or (ii) expired (or lapsed) through the passage of time pursuant to the terms of the applicable natural gas gathering agreement. We classify deferred revenue as current for arrangements where the expiration of a customer's right to utilize shortfall payments is twelve months or less. A rollforward of current and noncurrent deferred revenue follows.

	Six months ended June 30, 2014	
	Current	Noncurrent
	(In thousands)	
Deferred revenue, beginning of period	$1,555	$29,683
Additions	2,609	7,410
Less: revenue recognized due to expiration	1,555	—
Deferred revenue, end of period	$2,609	$37,093

As of June 30, 2014, accounts receivable included $4.8 million of shortfall billings related to MVC arrangements that can be utilized to offset gathering fees in subsequent periods. Noncurrent deferred revenue at June 30, 2014 represents amounts that provide certain customers the ability to offset their gathering fees over a period up to seven years to the extent that the customer's throughput volumes exceeds its MVC.

Income Taxes. Since we are structured as a partnership, we are generally not subject to federal and state income taxes, except as noted below. As a result, our unitholders or members are individually responsible for paying federal and state income taxes on their share of our taxable income.

In general, legal entities that are chartered, organized or conducting business in the state of Texas are subject to a franchise tax (the "Texas Margin Tax"). The Texas Margin Tax has the characteristics of an income tax because it is determined by applying a tax rate to a tax base that considers both revenues and expenses. Our financial statements reflect provisions for these tax obligations.

In June 2014, the Company elected to apply changes to the determination of cost of goods sold for the Texas Margin Tax which permits the use of accelerated depreciation allowed for federal income tax purposes. As a result of this change, current income tax expense for the three and six months ended June 30, 2014 was reduced and a deferred tax liability was recognized. The associated deferred tax liability of $1.2 million is included in other noncurrent liabilities at June 30, 2014.

Earnings Per Unit ("EPU"). We determine EPU by dividing the net income that is attributed, in accordance with the net income and loss allocation provisions of the partnership agreement, to the common and subordinated

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unitholders under the two-class method, after deducting the general partner's 2% interest in net income and any payments to the general partner in connection with their incentive distribution rights ("IDRs"), by the weighted-average number of common and subordinated units outstanding during the quarter-to-date and year-to-date periods in 2014 and 2013. Diluted earnings per limited partner unit reflects the potential dilution that could occur if securities or other agreements to issue common units, such as unit-based compensation, were exercised, settled or converted into common units. When it is determined that potential common units resulting from an award subject to performance or market conditions should be included in the diluted earnings per limited partner unit calculation, the impact is reflected by applying the treasury stock method.

Comprehensive Income. Comprehensive income is the same as net income for all periods presented.

Environmental Matters. We are subject to various federal, state and local laws and regulations relating to the protection of the environment. Although we believe that we are in material compliance with applicable environmental regulations, the risk of costs and liabilities are inherent in pipeline ownership and operation. Liabilities for loss contingencies, including environmental remediation costs, arising from claims, assessments, litigation, fines, and penalties and other sources are charged to expense when it is probable that a liability has been incurred and the amount of the assessment and/or remediation can be reasonably estimated. There are no such liabilities reflected in the accompanying financial statements at June 30, 2014 or December 31, 2013. However, we can provide no assurances that significant costs and liabilities will not be incurred by the Partnership in the future. We are currently not aware of any material contingent liabilities that exist with respect to environmental matters.

Other Significant Accounting Policies. For information on our other significant accounting policies, see Note 2 of the audited consolidated financial statements included in the 2013 Annual Report.

Recent Accounting Pronouncements. Accounting standard setters frequently issue new or revised accounting rules. We review new pronouncements to determine the impact, if any, on our financial statements. There are currently no recent pronouncements that have been issued that we believe will materially affect our financial statements, except as noted below.

In May 2014, the Financial Accounting Standards Board released a joint revenue recognition standard, Accounting Standards Update No. 2014-09 ("ASC Update 2014-09"). Under ASC Update 2014-09, revenue will be recognized under a five-step model: (i) identify the contract with the customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to performance obligations; and (v) recognize revenue when (or as) the partnership satisfies a performance obligation. This new standard is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016, and interim and annual periods thereafter. Early adoption is not permitted. We are currently in the process of evaluating the impact of this update.

3. PROPERTY, PLANT, AND EQUIPMENT, NET

Details on property, plant, and equipment, net were as follows:

	Useful lives (In years)	June 30, 2014	December 31, 2013
	(Dollars in thousands)		
Natural gas gathering and processing systems	30	$810,617	$744,359
Compressor stations and compression equipment	30	393,483	380,000
Construction in progress	n/a	63,419	83,765
Other	4-15	24,175	21,304
Total		1,291,694	1,229,428
Less: accumulated depreciation		92,967	71,347
Property, plant, and equipment, net		$1,198,727	$1,158,081

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Construction in progress is depreciated consistent with its applicable asset class once it is placed in service.
Depreciation expense related to property, plant, and equipment and capitalized interest were as follows:

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
	(In thousands)			
Depreciation expense	$11,104	$8,508	$21,625	$16,325
Capitalized interest	2,329	1,066	3,688	1,559

4. IDENTIFIABLE INTANGIBLE ASSETS, NONCURRENT LIABILITY AND GOODWILL

Identifiable Intangible Assets and Noncurrent Liability. Identifiable intangible assets and the noncurrent liability, which are subject to amortization, were as follows:

	June 30, 2014			
	Useful lives (In years)	Gross carrying amount	Accumulated amortization	Net
	(Dollars in thousands)			
Favorable gas gathering contracts	18.7	$24,195	$(7,185)	$17,010
Contract intangibles	12.5	426,464	(59,318)	367,146
Rights-of-way	24.2	111,975	(10,052)	101,923
Total amortizable intangible assets		$562,634	$(76,555)	$486,079
Unfavorable gas gathering contract	10.0	$10,962	$(5,007)	$5,955

	December 31, 2013			
	Useful lives (In years)	Gross carrying amount	Accumulated amortization	Net
	(Dollars in thousands)			
Favorable gas gathering contracts	18.7	$24,195	$(6,315)	$17,880
Contract intangibles	12.5	426,464	(43,158)	383,306
Rights-of-way	24.3	108,706	(7,715)	100,991
Total amortizable intangible assets		$559,365	$(57,188)	$502,177
Unfavorable gas gathering contract	10.0	$10,962	$(4,588)	$6,374

We recognized amortization expense in revenues as follows:

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
	(In thousands)			
Amortization expense – favorable gas gathering contracts	$(436)	$(527)	$(870)	$(1,099)
Amortization expense – unfavorable gas gathering contract	211	277	419	569
Amortization of favorable and unfavorable contracts	$(225)	$(250)	$(451)	$(530)

We recognized amortization expense in costs and expenses as follows:

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
	(In thousands)			
Amortization expense – contract intangibles	$8,198	$7,421	$16,160	$12,709
Amortization expense – rights-of-way	1,178	872	2,337	1,680

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The estimated aggregate annual amortization of intangible assets and noncurrent liability expected to be recognized for the remainder of 2014 and each of the four succeeding fiscal years follows.

	Assets	Liability
	(In thousands)	
2014	$20,589	$806
2015	43,872	1,650
2016	44,114	1,571
2017	42,846	1,438
2018	43,115	490

Goodwill. We evaluate goodwill for impairment annually on September 30. We also evaluate goodwill whenever events or circumstances indicate that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. There have been no impairments of goodwill.

5. LONG-TERM DEBT

Long-term debt consisted of the following:

	June 30, 2014	December 31, 2013
	(In thousands)	
Variable rate senior secured revolving credit facility (2.40% at June 30, 2014 and 2.42% at December 31, 2013) due November 2018	$426,000	$286,000
7.50% Senior unsecured notes due July 2021	300,000	300,000
Total long-term debt	$726,000	$586,000

Revolving Credit Facility. We have a variable rate senior secured revolving credit facility (the "revolving credit facility") which allows for revolving loans, letters of credit and swingline loans. The revolving credit facility is secured by the membership interests of Summit Holdings and those of its subsidiaries. Substantially all of Summit Holdings' and its subsidiaries' assets are pledged as collateral under the revolving credit facility. The revolving credit facility, and Summit Holdings' obligations, are guaranteed by SMLP and each of its subsidiaries (other than Summit Midstream Finance Corp. ("Finance Corp.")).

Borrowings under the revolving credit facility bear interest at the London Interbank Offered Rate ("LIBOR") or an Alternate Base Rate ("ABR") plus an applicable margin, as defined in the credit agreement. At June 30, 2014, the applicable margin under LIBOR borrowings was 2.25%, the interest rate was 2.40% and the unused portion of the revolving credit facility totaled $274.0 million (subject to a commitment fee of 0.375%).

As of June 30, 2014, we were in compliance with the covenants in the revolving credit facility. There were no defaults or events of default during the six months ended June 30, 2014.

Senior Notes. In June 2013, Summit Holdings and its 100% owned finance subsidiary, Finance Corp. (together with Summit Holdings, the "Co-Issuers"), co-issued $300.0 million of 7.50% senior unsecured notes maturing July 1, 2021 (the "7.5% senior notes").

We pay interest on the 7.5% senior notes semi-annually in cash in arrears on January 1 and July 1 of each year. The 7.5% senior notes are senior, unsecured obligations and rank equally in right of payment with all of our existing and future senior obligations. The 7.5% senior notes are effectively subordinated in right of payment to all of our secured indebtedness, to the extent of the collateral securing such indebtedness.

Effective as of April 7, 2014, all of the holders of our 7.5% senior notes exchanged their unregistered senior notes and the guarantees of those notes for registered notes and guarantees. The terms of the registered senior notes are substantially identical to the terms of the unregistered senior notes, except that the transfer restrictions, registration rights and provisions for additional interest relating to the unregistered senior notes do not apply to the registered senior notes.

As of June 30, 2014, we were in compliance with the covenants for the 7.5% senior notes. There were no defaults or events of default during the six months ended June 30, 2014.

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On July 15, 2014, Summit Holdings and Finance Corp. co-issued $300.0 million of 5.50% senior unsecured notes maturing August 15, 2022 (the "5.5% senior notes").

We will pay interest on the 5.5% senior notes semi-annually in cash in arrears on February 15 and August 15 of each year, commencing February 15, 2015. The 5.5% senior notes are senior, unsecured obligations and rank equally in right of payment with all of our existing and future senior obligations. The 5.5% senior notes are effectively subordinated in right of payment to all of our secured indebtedness, to the extent of the collateral securing such indebtedness. We used the proceeds from the issuance of the 5.5% senior notes to repay a portion of the balance outstanding under our revolving credit facility.

At any time prior to August 15, 2017, the Co-Issuers may redeem up to 35% of the aggregate principal amount of the 5.5% senior notes at a redemption price of 105.500% of the principal amount of the 5.5% senior notes, plus accrued and unpaid interest, if any, to the redemption date, with an amount not greater than the net cash proceeds of certain equity offerings. On and after August 15, 2017, the Co-Issuers may redeem all or part of the 5.5% senior notes at a redemption price of 104.125% (with the redemption premium declining ratably each year to 100.000% on August 15, 2020), plus accrued and unpaid interest, if any.

The 5.5% senior notes' indenture restricts SMLP’s and the Co-Issuers’ ability and the ability of certain of their subsidiaries to: (i) incur additional debt or issue preferred stock; (ii) make distributions, repurchase equity or redeem subordinated debt; (iii) make payments on subordinated indebtedness; (iv) create liens or other encumbrances; (v) make investments, loans or other guarantees; (vi) sell or otherwise dispose of a portion of their assets; (vii) engage in transactions with affiliates; and (viii) make acquisitions or merge or consolidate with another entity. These covenants are subject to a number of important exceptions and qualifications. At any time when the senior notes are rated investment grade by each of Moody’s Investors Service, Inc. and Standard & Poor’s Ratings Services and no default or event of default under the indenture has occurred and is continuing, many of these covenants will terminate.

The 5.5% senior notes' indenture provides that each of the following is an event of default: (i) default for 30 days in the payment when due of interest on the 5.5% senior notes; (ii) default in the payment when due of the principal of, or premium, if any, on the 5.5% senior notes; (iii) failure by the Co-Issuers or SMLP to comply with certain covenants relating to merger, consolidation, sale of assets, change of control or asset sales; (iv) failure by SMLP for 180 days after notice to comply with certain covenants relating to the filing of reports with the SEC; (v) failure by the Co-Issuers or SMLP for 30 days after notice to comply with any of the other agreements in the indenture; (vi) specified defaults under any mortgage, indenture or instrument under which there may be issued or by which there may be secured or evidenced any indebtedness for money borrowed by SMLP or any of its restricted subsidiaries (or the payment of which is guaranteed by SMLP or any of its restricted subsidiaries); (vii) failure by SMLP or any of its restricted subsidiaries to pay certain final judgments aggregating in excess of $20.0 million; (viii) except as permitted by the indenture, any guarantee of the senior notes shall cease for any reason to be in full force and effect or any guarantor, or any person acting on behalf of any guarantor, shall deny or disaffirm its obligations under its guarantee of the senior notes; and (ix) certain events of bankruptcy, insolvency or reorganization described in the indenture. In the case of an event of default as described in the foregoing clause (ix), all outstanding 5.5% senior notes will become due and payable immediately without further action or notice. If any other event of default occurs and is continuing, the trustee or the holders of at least 25% in principal amount of the then outstanding 5.5% senior notes may declare all the 5.5% senior notes to be due and payable immediately.

SMLP and all of its subsidiaries other than the Co-Issuers (the "Guarantors") have fully and unconditionally and jointly and severally guaranteed the 7.5% senior notes and the 5.5% senior notes. SMLP has no independent assets or operations. Summit Holdings has no assets or operations other than its ownership of its wholly owned subsidiaries and activities associated with its borrowings under the revolving credit facility, the 7.5% senior notes and the 5.5% senior notes. Finance Corp. has no independent assets or operations and was formed for the sole purpose of being a co-issuer of certain of Summit Holdings' indebtedness, including the 7.5% senior notes and the 5.5% senior notes. There are no significant restrictions on the ability of SMLP or Summit Holdings to obtain funds from its subsidiaries by dividend or loan.

6. PARTNERS' CAPITAL

Partners' Capital

In March 2014, we completed an underwritten public offering of 10,350,000 common units at a price of $38.75 per unit (the "March 2014 Equity Offering"), of which 5,300,000 common units were offered by the Partnership and 5,050,000 common units were offered by an affiliate of Summit Investments, pursuant to an effective shelf

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registration statement on Form S-3 previously filed with the SEC. Concurrent with the March 2014 Equity Offering, our general partner made a capital contribution to maintain its 2% general partner interest in SMLP. We used the proceeds from the primary offering and the general partner capital contribution to fund a portion of the purchase of Red Rock Gathering. See Notes 1 and 12 for additional information.

Rollforwards of the number of common limited partner, subordinated limited partner and general partner units for the six months ended June 30 follow.

	Common	Subordinated	General partner	Total
Units, January 1, 2013	24,412,427	24,409,850	996,320	49,818,597
Units issued to affiliates in connection with the Bison Drop Down	1,553,849	—	31,711	1,585,560
Units issued to affiliates in connection with the Mountaineer Acquisition	3,107,698	—	63,422	3,171,120
Units, June 30, 2013	29,073,974	24,409,850	1,091,453	54,575,277

	Common	Subordinated	General partner	Total
Units, January 1, 2014	29,079,866	24,409,850	1,091,453	54,581,169
Units issued in connection with the March Equity 2014 Offering (1)	5,300,000	—	108,337	5,408,337
Units issued under LTIP (1)(2)	43,503	—	861	44,364
Units, June 30, 2014	34,423,369	24,409,850	1,200,651	60,033,870

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(1) Including issuance to general partner in connection with contributions made to maintain 2% general partner interest.

(2) Units issued to common unitholders is net of 14,047 units withheld to meet minimum statutory tax withholding requirements.

Summit Investments' Equity in Contributed Subsidiaries. Summit Investments' equity in contributed subsidiaries represents its position in the net assets of Red Rock Gathering and Bison Midstream that have been acquired by SMLP. The balance also reflects net income attributable to Summit Investments for Red Rock Gathering and Bison Midstream for the periods beginning on their respective acquisition dates by Summit Investments and ending on the dates they were acquired by the Partnership. During the three- and six-month periods ended June 30, 2014 and 2013, net income was attributed to Summit Investments for (i) Red Rock Gathering for the period from January 1, 2014 to March 18, 2014 and for the period from January 1, 2013 to June 30, 2013 and (ii) Bison Midstream for the period from February 16, 2013 to June 4, 2013. Although included in partners' capital, net income attributable to Summit Investments has been excluded from the calculation of EPU. For additional information, see Notes 1, 7 and 12.

Subordination. The principal difference between our common units and subordinated units is that in any quarter during the subordination period, holders of the subordinated units are not entitled to receive any distribution of available cash until the common units have received the minimum quarterly distribution plus any arrearages in the payment of the minimum quarterly distribution from prior quarters. Subordinated units will not accrue arrearages for unpaid quarterly distributions or quarterly distributions less than the minimum quarterly distribution. If we do not pay the minimum quarterly distribution on our common units, our common unitholders will not be entitled to receive such payments in the future except during the subordination period. To the extent we have available cash in any future quarter during the subordination period in excess of the amount necessary to pay the minimum quarterly distribution to holders of our common units, we will use this excess available cash to pay any distribution arrearages related to prior quarters before any cash distribution is made to holders of subordinated units. When the subordination period ends, all subordinated units will convert into common units on a one-for-one basis, and thereafter no common units will be entitled to arrearages.

The subordination period will end on the first business day after we have earned and paid at least (1) $1.60 (the minimum quarterly distribution on an annualized basis) on each outstanding common unit and subordinated unit and the corresponding distribution on the general partner's 2.0% interest for each of three consecutive, non-overlapping four-quarter periods ending on or after December 31, 2015 or (2) $2.40 (150.0% of the annualized minimum quarterly distribution) on each outstanding common unit and subordinated unit and the corresponding distributions on the general partner's 2.0% interest and the related distribution on the incentive distribution rights for the four-quarter period immediately preceding that date, in each case provided there are no arrearages on the common units at that time.

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Cash Distribution Policy

Our partnership agreement requires that we distribute all of our available cash (as defined below) within 45 days after the end of each quarter to unitholders of record on the applicable record date. Our policy is to distribute to our unitholders an amount of cash each quarter that is equal to or greater than the minimum quarterly distribution stated in our partnership agreement.

Minimum Quarterly Distribution. Our partnership agreement generally requires that we make a minimum quarterly distribution to the holders of our common units and subordinated units of $0.40 per unit, or $1.60 on an annualized basis, to the extent we have sufficient cash from our operations after the establishment of cash reserves and the payment of costs and expenses, including reimbursements of expenses to our general partner. The amount of distributions paid under our policy and the decision to make any distribution is determined by our general partner, taking into consideration the terms of our partnership agreement.

Definition of Available Cash. Available cash generally means, for any quarter, all cash on hand at the end of that quarter:

- less the amount of cash reserves established by our general partner at the date of determination of available cash for that quarter to:
- provide for the proper conduct of our business (including reserves for our future capital expenditures and anticipated future debt service requirements);
- comply with applicable law, any of our debt instruments or other agreements; or
- provide funds for distributions to our unitholders and to our general partner for any one or more of the next four quarters (provided that our general partner may not establish cash reserves for distributions unless it determines that the establishment of reserves will not prevent us from distributing the minimum quarterly distribution on all common units and any cumulative arrearages on such common units for the current quarter);
- plus, if our general partner so determines, all or any portion of the cash on hand on the date of determination of available cash for the quarter resulting from working capital borrowings made subsequent to the end of such quarter.

General Partner Interest and Incentive Distribution Rights. Our general partner is entitled to 2.0% of all distributions that we make prior to our liquidation. Our general partner has the right, but not the obligation, to contribute a proportionate amount of capital to us to maintain its current general partner interest. Our general partner's initial 2.0% interest in our distributions will be reduced if we issue additional units in the future and our general partner does not contribute a proportionate amount of capital to us to maintain its 2.0% general partner interest.

Our general partner also currently holds incentive distribution rights that entitle it to receive increasing percentage allocations, up to a maximum of 50.0% (as set forth in the chart below), of the cash we distribute from operating surplus in excess of $0.46 per unit per quarter. The maximum distribution includes distributions paid to our general partner on its 2.0% general partner interest and assumes that our general partner maintains its general partner interest at 2.0%. The maximum distribution does not include any distributions that our general partner may receive on any common or subordinated units that it owns.

Percentage Allocations of Available Cash. The following table illustrates the percentage allocations of available cash between the unitholders and our general partner based on the specified target distribution levels. The amounts set forth in the column Marginal Percentage Interest in Distributions are the percentage interests of our general partner and the unitholders in any available cash we distribute up to and including the corresponding amount in the column Total Quarterly Distribution Per Unit Target Amount. The percentage interests shown for our unitholders and our general partner for the minimum quarterly distribution are also applicable to quarterly distribution amounts that are less than the minimum quarterly distribution. The percentage interests set forth below for our general partner include its 2.0% general partner interest and assume that our general partner has contributed any additional capital necessary to maintain its 2.0% general partner interest, our general partner has not transferred its incentive distribution rights and that there are no arrearages on common units.

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	Total quarterly distribution per unit target amount	Marginal percentage interest in distributions	
		Unitholders	General partner
Minimum quarterly distribution	$0.40	98.0%	2.0%
First target distribution	$0.40 up to $0.46	98.0%	2.0%
Second target distribution	above $0.46 up to $0.50	85.0%	15.0%
Third target distribution	above $0.50 up to $0.60	75.0%	25.0%
Thereafter	above $0.60	50.0%	50.0%

SMLP allocated its distribution in accordance with the third target distribution level for distributions attributable to the quarter ended June 30, 2014. Details of cash distributions declared to date follow.

Attributable to the quarter ended	Payment date	Per-unit distribution	Cash paid to common unitholders	Cash paid to subordinated unitholders	Cash paid to general partner interest	Cash paid for IDRs	Total distribution
		(Dollars in thousands, except per-unit amounts)					
December 31, 2012	February 14, 2013	$0.4100	$10,009	$10,008	$408	$—	$20,425
March 31, 2013	May 15, 2013	0.4200	10,253	10,252	418	—	20,923
June 30, 2013	August 14, 2013	0.4350	12,647	10,618	475	—	23,740
September 30, 2013	November 14, 2013	0.4600	13,377	11,229	502	—	25,108
December 31, 2013	February 14, 2014	0.4800	13,958	11,717	528	163	26,366
March 31, 2014	May 15, 2014	0.5000	17,211	12,205	608	360	30,384

On July 24, 2014, the board of directors of our general partner declared a distribution of $0.52 per unit for the quarterly period ended June 30, 2014. The distribution will be paid on August 14, 2014 to unitholders of record at the close of business on August 7, 2014.

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7. EARNINGS PER UNIT

The following table presents details on EPU.

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
	(Dollars in thousands, except per-unit amounts)			
Net income	$4,036	$8,767	$10,409	$22,630
Less: net income attributable to Summit Investments	—	699	2,828	2,082
Net income attributable to SMLP	4,036	8,068	7,581	20,548
Less: net income attributable to general partner, including IDRs	801	161	1,232	411
Net income attributable to limited partners	$3,235	$7,907	$6,349	$20,137
Numerator for basic and diluted EPU:				
Allocation of net income among limited partner interests:				
Net income attributable to common units	$1,891	$4,012	$4,398	$10,127
Net income attributable to subordinated units	1,344	3,895	1,951	10,010
Net income attributable to limited partners	$3,235	$7,907	$6,349	$20,137
Denominator for basic and diluted EPU:				
Weighted-average common units outstanding – basic	34,422,273	25,172,087	32,179,431	24,790,158
Effect of non-vested phantom units and non-vested restricted units	196,233	109,017	180,591	80,875
Weighted-average common units outstanding – diluted	34,618,506	25,281,104	32,360,022	24,871,033
Weighted-average subordinated units outstanding – basic and diluted	24,409,850	24,409,850	24,409,850	24,409,850
Earnings per limited partner unit:				
Common unit – basic	$0.05	$0.16	$0.14	$0.41
Common unit – diluted	$0.05	$0.16	$0.14	$0.41
Subordinated unit – basic and diluted	$0.05	$0.16	$0.08	$0.41

There were no units excluded from diluted earnings per unit as we do not have any anti-dilutive units for the three and six months ended June 30, 2014 or 2013. See Notes 6 and 8 for additional information.

8. UNIT-BASED COMPENSATION

Long-Term Incentive Plan. SMLP’s 2012 Long-Term Incentive Plan (the "LTIP") provides for the granting of unit-based awards, including common units, restricted units and phantom units to eligible officers, employees, consultants and directors of our general partner and its affiliates, thereby linking the recipients' compensation directly to SMLP’s performance. The LTIP is administered by the compensation committee of our general partner. A total of 5.0 million common units was reserved for issuance pursuant to and in accordance with the LTIP. As of June 30, 2014, approximately 4.6 million common units remained available for future issuance.

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A rollfoward of phantom and restricted unit activity follows.

	Six months ended June 30, 2014	
	Units	Weighted-average grant date fair value
Nonvested phantom and restricted units, beginning of period	283,682	$ 23.41
Phantom units granted	136,867	$ 42.32
Restricted units granted	—	$ —
Phantom and restricted units vested	(61,036)	$ 25.20
Phantom units forfeited	(10,760)	$ 25.85
Nonvested phantom and restricted units, end of period	348,753	$ 30.44

A phantom unit is a notional unit that entitles the grantee to receive a common unit upon the vesting of the phantom unit or on a deferred basis upon specified future dates or events or, in the discretion of the administrator, cash equal to the fair market value of a common unit. A restricted unit is a common limited partner unit that is subject to a restricted period during which the unit remains subject to forfeiture.

The phantom units granted in connection with the IPO vest on the third anniversary of the IPO. All other phantom units granted to date vest ratably over a three-year period. Grant date fair value is determined based on the closing price of our common units on the date of grant multiplied by the number of phantom units awarded to the grantee. Holders of all phantom units granted to date are entitled to receive distribution equivalent rights for each phantom unit, providing for a lump sum cash amount equal to the accrued distributions from the grant date of the phantom units to be paid in cash upon the vesting date. Upon vesting, phantom unit awards may be settled, at our discretion, in cash and/or common units, but the current intention is to settle all phantom unit awards with common units.

As of June 30, 2014, the unrecognized unit-based compensation related to the LTIP was $6.9 million. Incremental unit-based compensation will be recorded over the remaining vesting period of approximately 2.7 years. Due to the limited and immaterial forfeiture history associated with the grants under the LTIP, no forfeitures were assumed in the determination of estimated compensation expense.

Unit-based compensation recognized in general and administrative expense related to awards under the LTIP was as follows:

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
	(In thousands)			
SMLP LTIP unit-based compensation	$1,361	$814	$2,424	$1,141

DFW Net Profits Interests. Class B membership interests in DFW Midstream (the "DFW Net Profits Interests") participated in distributions upon time vesting and the achievement of certain distribution targets to Class A members or higher priority vested DFW Net Profits Interests. The DFW Net Profits Interests were accounted for as compensatory awards. All grants vested ratably and provided for accelerated vesting in certain limited circumstances, including a qualifying termination following a change in control (as defined in the underlying agreements). In April 2013, we repurchased all of the then-outstanding DFW Net Profits Interests from the five remaining holders. Upon the conclusion of these repurchase transactions, there were no remaining or outstanding DFW Net Profits Interests as of April 30, 2013.

9. CONCENTRATIONS OF RISK

Financial instruments that potentially subject us to concentrations of credit risk consist of cash and accounts receivable. We maintain our cash in bank deposit accounts that frequently exceed federally insured limits. We have not experienced any losses in such accounts and do not believe we are exposed to any significant risk.

Accounts receivable primarily comprise natural gas gathering, treating and processing services we provide to our customers. This industry concentration has the potential to impact our overall exposure to credit risk, either positively or negatively, in that our customers may be similarly affected by changes in economic, industry or other

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conditions. We monitor the creditworthiness of our counterparties and can require letters of credit for receivables from counterparties that are judged to have sub-standard credit, unless the credit risk can otherwise be mitigated.
Counterparties accounting for more than 10% of total revenues were as follows:

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Revenue:				
Counterparty A	13 %	13 %	13 %	15 %
Counterparty B	10 %	14 %	10 %	17 %

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* Less than 10%

Counterparties accounting for more than 10% of total accounts receivable were as follows:

	June 30, 2014	December 31, 2013
Accounts receivable:		
Counterparty A	16 %	37 %
Counterparty B	10 %	11 %

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* Less than 10%

10. RELATED-PARTY TRANSACTIONS

Recent Acquisitions. See Notes 1, 5, 6 and 12 for disclosure of the Red Rock Drop Down and Bison Drop Down and the funding of those transactions.

Reimbursement of Expenses from General Partner. Our general partner and its affiliates do not receive a management fee or other compensation in connection with the management of our business, but will be reimbursed for expenses incurred on our behalf. Under our partnership agreement, we reimburse our general partner and its affiliates for certain expenses incurred on our behalf, including, without limitation, salary, bonus, incentive compensation and other amounts paid to our general partner's employees and executive officers who perform services necessary to run our business. In addition, we reimburse our general partner for compensation, travel and entertainment expenses for the directors serving on the board of directors of our general partner and the cost of director and officer liability insurance. Our partnership agreement provides that our general partner will determine in good faith the expenses that are allocable to us.

The payables to our general partner for expenses that were paid on our behalf were as follows:

	June 30, 2014	December 31, 2013
	(In thousands)	
Due to affiliate		